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Telkom SA SOC Ltd

# Group Interim Results

for the six months ended 30 September 2014

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

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

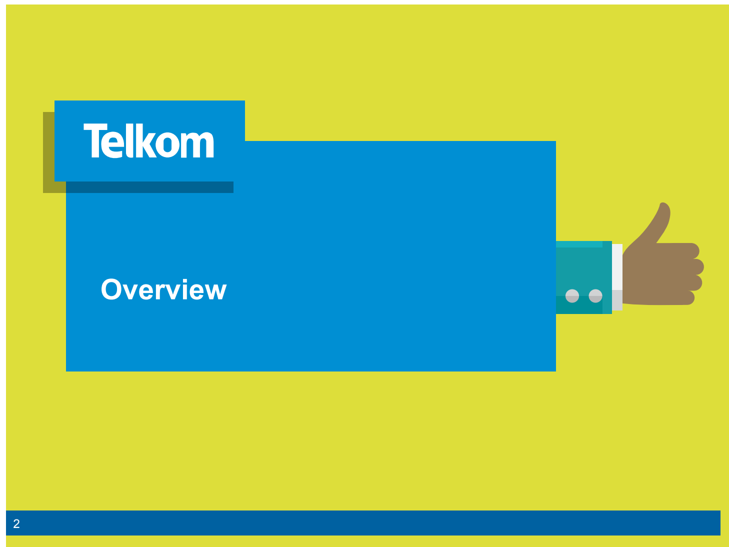
**Group Secretary**
Xoliswa Mpongoshe

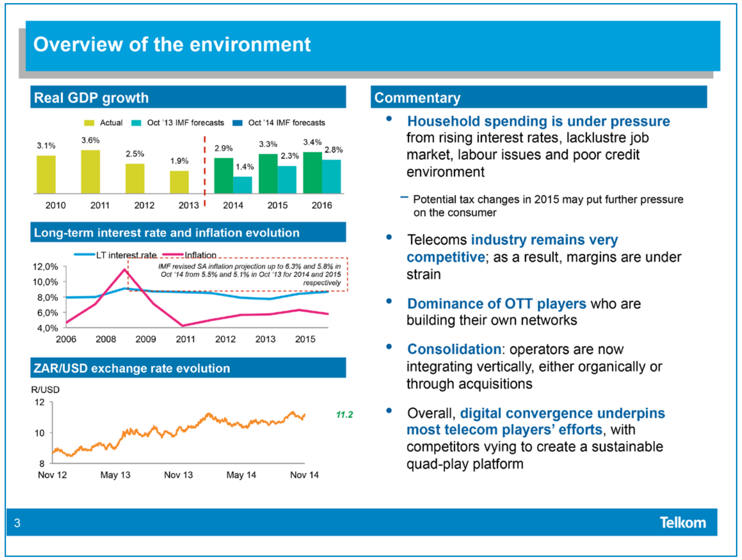
**Transfer secretaries**
Computershare Investor Services (Proprietary) Limited
PO Box 61051, Marshalltown, 2107

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

**Directors**
JA Mabuza (Chairman), SN Maseko (Group Chief Executive Officer), DJ Fredericks (Chief Financial Officer), S Botha, Dr CA Fynn, N Kapila, I Kgaboesele, K Kweyama, L Maasdorp, K Mzondeki, F Petersen, LL Von Zeuner


Notes:





Overview of the environment
Real GDP growth
Actual
Oct '13 IMF forecasts
Oct '14 IMF forecasts
3.1%
3.6%
2.5%
1.9%
2.9%
1.4%
3.3%
2.3%
3.4%
2.8%
2010
2011
2012
2013
2014
2015
2016
Long-term interest rate and inflation evolution
LT interest rate
Inflation
IMF revised SA inflation projection up to 6.3% and 5.8% in Oct '14 from 5.5% and 5.1% in Oct '13 for 2014 and 2015 respectively
12,0%
10,0%
8,0%
6,0%
4,0%
2006
2008
2009
2011
2012
2013
2015
ZAR/USD exchange rate evolution
R/USD
12
10
8
11.2
Nov 12
May 13
Nov 13
May 14
Nov 14
Commentary
Household spending is under pressure from rising interest rates, lacklustre job market, labour issues and poor credit environment
– Potential tax changes in 2015 may put further pressure on the consumer
Telecoms industry remains very competitive; as a result, margins are under strain
Dominance of OTT players who are building their own networks
Consolidation: operators are now integrating vertically, either organically or through acquisitions
Overall, digital convergence underpins most telecom players' efforts, with competitors vying to create a sustainable quad-play platform
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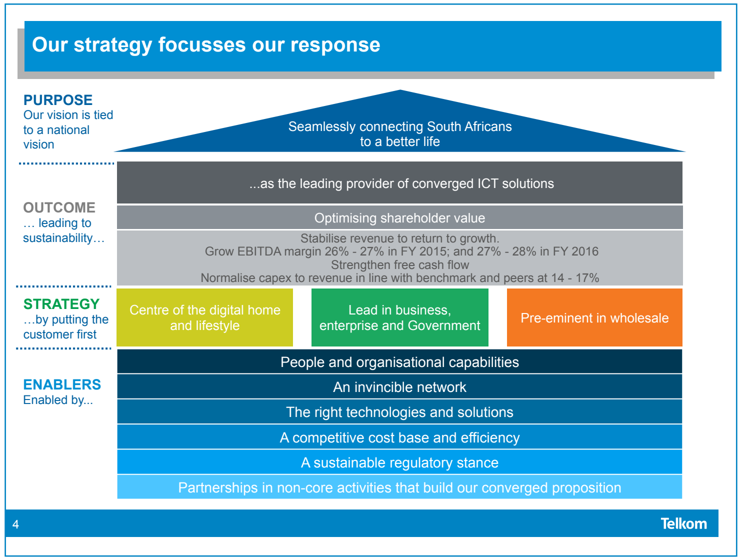
Notes:



Our strategy focusses our response
PURPOSE
Our vision is tied to a national vision
Seamlessly connecting South Africans to a better life
...as the leading provider of converged ICT solutions
OUTCOME
... leading to sustainability...
Optimising shareholder value
Stabilise revenue to return to growth.
Grow EBITDA margin 26% - 27% in FY 2015; and 27% - 28% in FY 2016
Strengthen free cash flow
Normalise capex to revenue in line with benchmark and peers at 14 - 17%
STRATEGY
...by putting the customer first
Centre of the digital home and lifestyle
Lead in business, enterprise and Government
Pre-eminent in wholesale
ENABLERS
Enabled by...
People and organisational capabilities
An invincible network
The right technologies and solutions
A competitive cost base and efficiency
A sustainable regulatory stance
Partnerships in non-core activities that build our converged proposition
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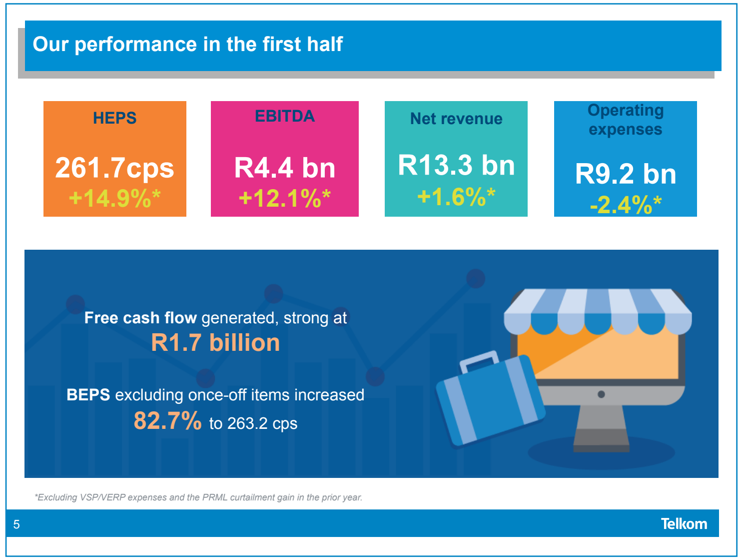

Our performance in the first half
HEPS
261.7cps
+14.9%*
EBITDA
R4.4 bn
+12.1%*
Net revenue
R13.3 bn
+1.6%*
Operating expenses
R9.2 bn
-2.4%*
Free cash flow generated, strong at
R1.7 billion
BEPS excluding once-off items increased
82.7% to 263.2 cps
*Excluding VSP/VERP expenses and the PRML curtailment gain in the prior year.
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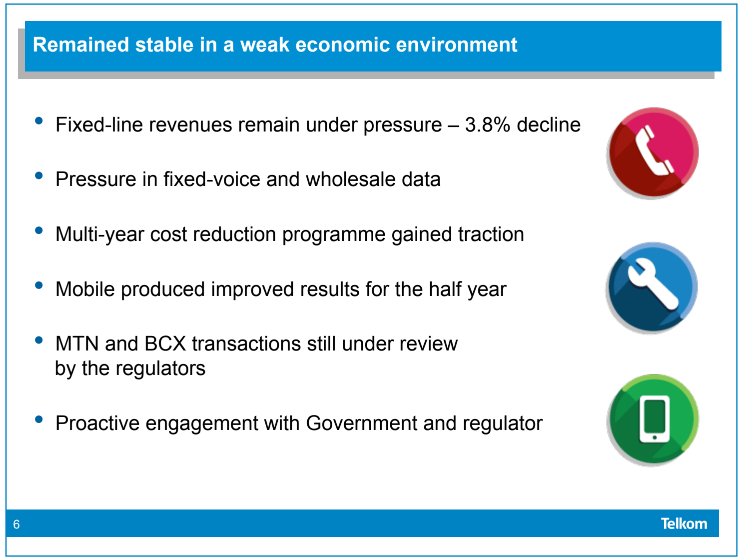
Notes:



Remained stable in a weak economic environment
Fixed-line revenues remain under pressure – 3.8% decline
Pressure in fixed-voice and wholesale data
Multi-year cost reduction programme gained traction
Mobile produced improved results for the half year
MTN and BCX transactions still under review by the regulators
Proactive engagement with Government and regulator
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## Maintaining revenues and controlling costs

- Operating costs decreased 8.3% in real terms
- Consolidating the business and improving efficiencies
- Key initiatives include:
  - Staff efficiency programme
  - Less vehicles leased and fewer kilometres travelled
  - Lower marketing spend
  - Lower security cost
- Going forward we will also address:
  - Office consolidation; the further sale of non-core property; and post-retirement medical aid liability for pensioners

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Notes:

## A key revenue driver going forward will be the ability to excel in customer experience

**We are tackling three drivers of customer advocacy**

| Value proposition | Use experience | Service experience |
|---|---|---|
| Am I getting good value for money? | Can I use the services for what I need without disruption? | When I need to interact with Telkom, is it easy and convenient for me? |

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## Addressing the critical issues our customers are telling us need to be fixed

| Explore and buy | Get started | Fix fault/ Get help | Use |
|---|---|---|---|
| • Redesign store experience<br>• Rebuild online presence<br>• Upgrade contact centre skills | • Improve the on-boarding experience<br>• Quicker service installation | • Revamped self-service options (multiple channels)<br>• Better fault diagnostic tools<br>• Shorter fault restoration times | • Invest in ISP network capacity<br>• Communicate often and clearly<br>• Manage high users<br>• Remove network bottlenecks |

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Notes:

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## Retail

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## Operational and commercial traction in Consumer

- Consolidated the fixed-line and mobile consumer businesses
- Rationalised our product offering
- Our *Summer of Wow* campaign is our first truly converged offer
- Market leading product offering
  - First SA operator to offer LTEA and FTTH
  - Completely unlimited package rated best mobile package*
- Building one brand and identity


*Tarifica study, which ranks the top 10 contracts and a perfect 100 is assigned to the very top contract.

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Notes:

## Consumer: Improvements across unit led by mobile

- Mobile EBITDA improved by 50.7%
  - Grew external service revenue by 48.0%
  - 22% increase in ARPU
- Active mobile subscribers have breached the two million mark
- Residential DSL subscribers increased 8%
- Extracting efficiencies through consolidation
- Customers acknowledge improvements:
  - MyBroadband: Fixed and mobile broadband provider of choice
  - Best compliments to complaints ratio in the industry in the HelloPeter telecommunications league table
  - Improved Ask Afrika Orange Index rating

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## Leading provider of communications services in business

- Exclusive provider of communication services to three big banks
- Leading provider of services in the retail and public sector
- Good growth in Telkom Business mobile subscriber base to 102 474 subscribers
- Increased economic and competitive pressure, e.g. OTT players
- Solutions focused deals key to building good pipeline

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Notes:

## Telkom Business positioned for further strength

- New industry vertical sales focus to offer unique solutions to our customers
- Good Managed Data Network Services growth
  - Growth of 14% in revenues and 4.7% in sites in a saturated market
- Migrating customers from legacy to future-fit products on track
  - IT Business Service revenue up 23%
  - Metro-ethernet revenues up 40%
- Increased Internet access and related revenue by 6.7%

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## Wholesale and Networks

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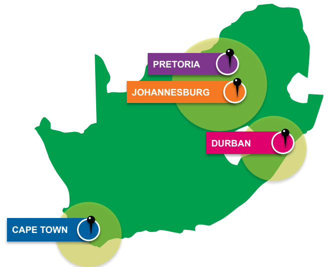
Notes:

## Customer-led high speed broadband offering

- FTTH: Wholesale open access Fibre Broadband product commercial launch on 1 December 2014 – first fibres lit and presence in 23 suburbs
- Reduced our 20 Mbps and 40 Mbps pricing
- Launched LTE Advance – targeted at 50 areas




| 696 392 active ports[1] | 712 819 homes passed[1] | 1 275 LTE sites integrated[1] | 3 704 WiFi hotspots[1] |
|---|---|---|---|

[1] As at 30 September 2014

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Notes:

## Best-in-class consolidated network offering

**INTEGRATED BROADBAND PLAN**

| Fibre | VDSL/ADSL | LTE | Satellite |
|---|---|---|---|
| • Premium speed<br>• Uncapped data<br>• Multiple users<br>• Services and content<br>• Superior reliability | • High consistent speed<br>• Uncapped data<br>• Multiple users<br>• Services and content | • High speed<br>• High mobility | • Average speed<br>• High availability<br>• 100% coverage |
| → Offer best-in-class speed, reliability and experience to the most content-savvy and demanding customers | → Satisfy growing high-speed and high-capacity needs in dense demand areas with existing DSL network | → Connect lower demand areas where fixed-line is not feasible<br>→ Satisfy growing demand for nomadic or secondary devices | → Connect rural where fixed-line and LTE is not feasible |

**Telkom is uniquely positioned to efficiently deploy the right technology at the right place to the widest number of potential customers**

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## Optimising our network for better efficiency

- IP connect revenue grew by 4%
- Leased line revenue decreased by 21.3%
- Improved Metro Ethernet installations by 77%
- Decommissioning legacy technology
- Increasing traffic volumes and demand, but with downward pressure on prices
- Balancing routine work and preventative maintenance to ensure optimal service delivery

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## Financial overview



Notes:

## H1 2015 financial highlights

- Stabilised revenue amid challenging conditions
- EBITDA increased 12.1% – Margin of 27.7%
- HEPS (excluding once off items) increased 14.9% to 261.7 cents
- Reduced operating cost by 2.4%
  - Lower employee and marketing cost, decrease in the number of vehicles
- Mobile data revenue growth of 39.3%
  - Post-paid data subscribers grew 134.2%
  - Increased service and subscription revenue by 48.0%
- Decrease EBITDA loss in the mobile division by 50.7%
- Focussed and disciplined capital allocation – commercially focussed
- Strong cash flows:
  - Free cash flow generated remains strong at R1.7bn
  - Group net debt decreased 74.1% from March 2014 to R545 million





## Interim results

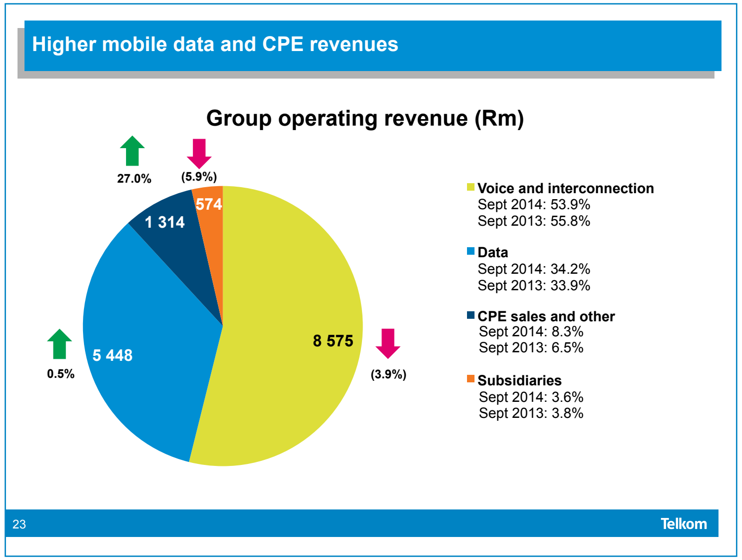
| | Sept 2014 Rm | Sept 2013 Rm | % |
|---|---|---|---|
| Operating revenue | 15 911 | 15 989 | (0.5) |
| Net revenue | 13 299 | 13 087 | 1.6 |
| Operating expenses | 9 168 | 9 389 | (2.4) |
| EBITDA | 4 403 | 3 927 | 12.1 |
| Depreciation and impairments | 2 489 | 3 091 | 19.5 |
| Capital investments | 1 815 | 3 171 | (42.8) |
| Free cash flow | 1 699 | 33 | 5 048.5 |
| Headline earnings per share (cps) | 261.7 | 227.8 | 14.9 |



Notes:

## Quality of earnings

| | Sept 2014 Rm | Sept 2013 Rm | % |
|---|---|---|---|
| **Profit for the year** | **1 156** | **2 964** | **(61.0)** |
| Net FTR/MTR impact | (321) | (115) | (179.1) |
| Gain on sale of assets | (53) | (7) | (657.1) |
| Severance package costs | 325 | - | - |
| Asset write offs and impairments | 42 | 449 | (9.7) |
| Profit of the sinking fund | (132) | (195) | 32.3 |
| Curtailment gain on PRMA | - | (2 173) | - |
| Tax adjustment | 2 | 17 | (88.2) |
| **Adjusted profit for the year** | **1 019** | **940** | **8.4** |
| **Headline earnings per share (cents)** | **190.6** | **173.3** | **10.0** |


Higher mobile data and CPE revenues
Group operating revenue (Rm)
27.0%
(5.9%)
574
1 314
5 448
0.5%
8 575
(3.9%)
Voice and interconnection
Sept 2014: 53.9%
Sept 2013: 55.8%
Data
Sept 2014: 34.2%
Sept 2013: 33.9%
CPE sales and other
Sept 2014: 8.3%
Sept 2013: 6.5%
Subsidiaries
Sept 2014: 3.6%
Sept 2013: 3.8%
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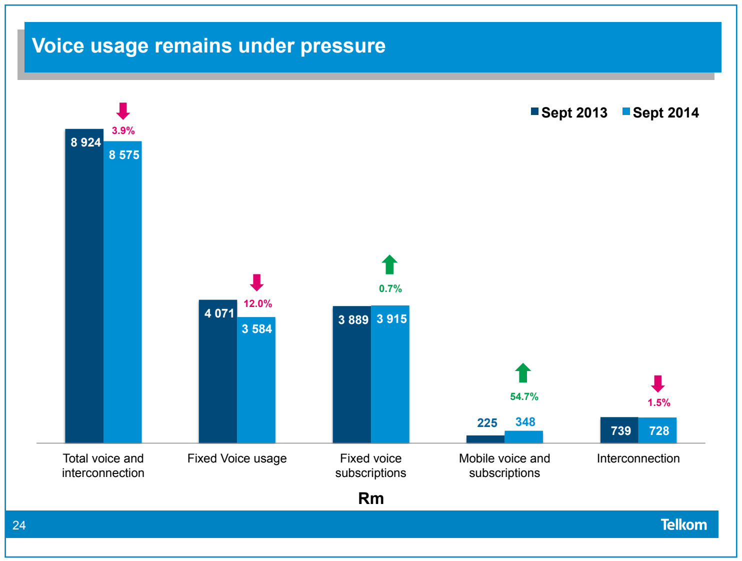
Notes:


Voice usage remains under pressure
Sept 2013
Sept 2014
8 924
8 575
3.9%
4 071
3 584
12.0%
3 889
3 915
0.7%
225
348
54.7%
739
728
1.5%
Total voice and interconnection
Fixed Voice usage
Fixed voice subscriptions
Mobile voice and subscriptions
Interconnection
Rm
24
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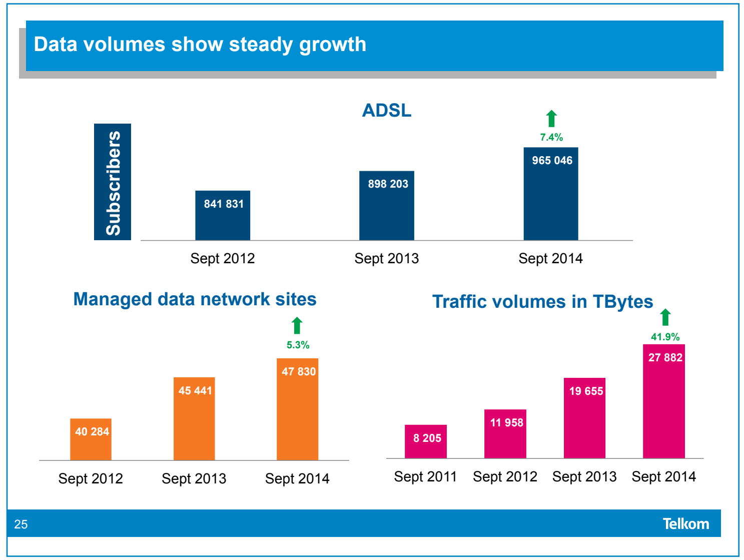
Data volumes show steady growth
ADSL
Subscribers
841 831
898 203
965 046
7.4%
Sept 2012
Sept 2013
Sept 2014
Managed data network sites
40 284
45 441
47 830
5.3%
Sept 2012
Sept 2013
Sept 2014
Traffic volumes in TBytes
8 205
11 958
19 655
27 882
41.9%
Sept 2011
Sept 2012
Sept 2013
Sept 2014
25
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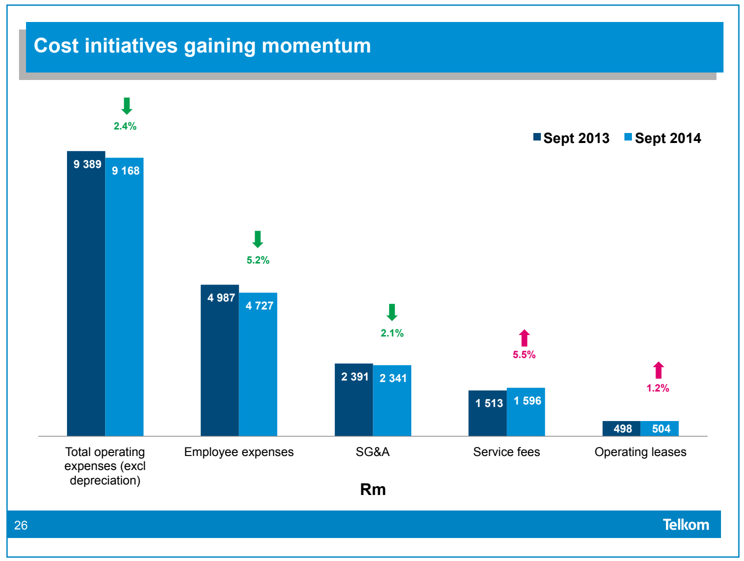
Notes:


Cost initiatives gaining momentum
Sept 2013
Sept 2014
9 389
9 168
2.4%
4 987
4 727
5.2%
2 391
2 341
2.1%
1 513
1 596
5.5%
498
504
1.2%
Total operating expenses (excl depreciation)
Employee expenses
SG&A
Service fees
Operating leases
Rm
26
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## Capital expenditure

| | Sept 2014 Rm | Sept 2013 Rm | % |
|---|---|---|---|
| Total capital expenditure | 1 815 | 3 171 | 42.8 |
| Group capital expenditure excluding mobile | 1 651 | 2 356 | 29.9 |
| Converting access network in IP (NGN) | 561 | 999 | 43.8 |
| Maintaining/enhancing existing telecoms and IT networks | 1 090 | 1 357 | 19.7 |
| Mobile | 164 | 815 | 79.9 |

**Measured and rigorous approach focussing on returns**

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Notes:

## Normalised cash flow from operations

| | Sept 2014 Rm | Sept 2013 Rm | % |
|---|---|---|---|
| Cash flow from operating activities | 3 469 | 3 166 | 9.6 |
| Competition Commission payments | 67 | 67 | - |
| Package cost paid | 86 | 710 | (87.9) |
| Tax refund received | - | (854) | - |
| Normalised cash flow from operations | 3 622 | 3 089 | 17.3 |
| Cash at end of period | 3 906 | 1 190 | 228.2 |
| Discretionary investments | 3 581 | 3 750 | (4.5) |

**We remain lowly geared with a net debt to EBITDA of 0.1**

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## Financial guidance

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

| | H1 F2014 A | H1 F2015 A | F2015 | F2016 |
|---|---|---|---|---|
| Net Revenue | +0.8% | +1.6% | Stabilise to grow | Stabilise to grow |
| EBITDA margin | 24.6% | 25.6%* | 26% - 27% | 27% - 28% |
| Capex to revenue | 19.8% | 11.4% | 14% - 17% | 14% - 17% |
| Net debt to EBITDA | 0.3 | 0.1 | ≤ 1 | ≤ 1 |

**Our dividend policy going forward**

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.

Our intention is to reinstate the dividend in 2015.

*Including package cost of R325 million

The above have not been reviewed or reported on by the external auditors of the Company

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Notes:

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## Prospects

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## Our turnaround strategy is on track

- We are seeing the benefits of discipline in operational and capital expenditure
- Starting to see the traction in addressing customer experience
- Telkom has a unique network and are investing in a targeted rollout of our high speed broadband offering
- The regulator has started correcting market distortions, and there is still room to continue
- High calibre management team is in place and will be constantly strengthened



Notes:

## Near term priorities

| Business unit | Key focus area |
| --- | --- |
| Consumer | • Accelerate broadband penetration<br>• Continue mobile improvement<br>• Enrich content and value-added services<br>• Exploit convergence opportunities |
| Business | • Build a solutions-based business through our vertical clusters<br>• Offering converged solutions<br>• Consolidate product suite and migrate customers to next generation products and services |
| Wholesale and networks | • Improve turnaround for new installations<br>• Reposition wholesale business to achieve access agnostic network<br>• Increase speeds and capability |





## De-risking mobile

### Telkom Mobile and MTN SA

- The objective is to **enhance our position in the mobile market**, and allow Telkom to compete with much larger and stronger competitors
- **Bilateral roaming agreement** will enable customers of either party to roam on both networks and have full access to capacity and coverage of both networks
- Parties' **independent networks will be configured**, such that use of parties' network assets will provide greater efficiencies, improved quality of service and coverage for customers
- MTN will take over **financial and operational responsibility** for the rollout and operation of Telkom's RAN



Notes:

## Growing Telkom Business beyond connectivity

### Telkom and Business Connexion

- Support **growth beyond core business of connectivity** by expanding into ICT services
- Proposed transaction is **funded from our balance sheet** and enables the realisation of **synergies**
- Significant opportunity to increase and **leverage off respective client base**
- Maintain BCX as a **separate operational entity** within Telkom
- Addresses both **revenues** and **costs**
- BCX skills and certifications are aligned to Telkom's strategy for future growth

## We are clear what needs to be done

Deliver **superior customer experience**

**Disciplined capital allocation** with greater emphasis on productivity and returns

**Complete corporate transactions** – awaiting approval for MTN agreement and BCX

**Improve efficiency** – address all costs and optimise net asset base

**Find revenue growth** – to secure future

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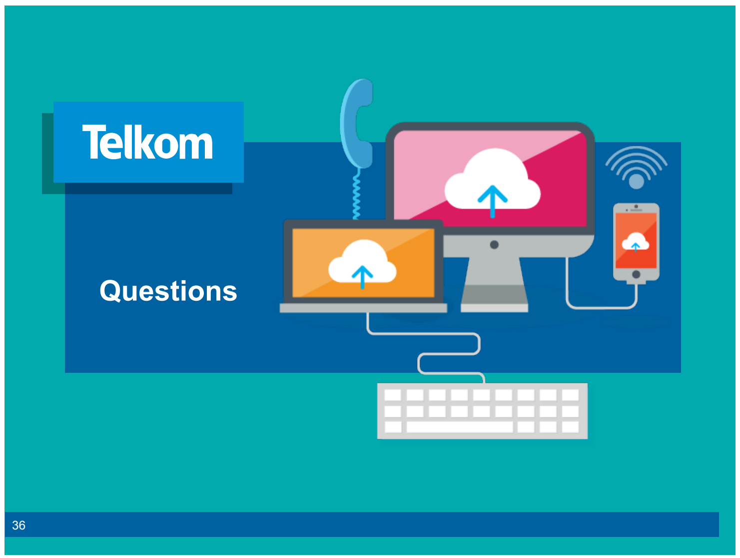
Notes:

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# Group Interim Results
for the six months ended 30 September 2014

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**Auditors' review report**

Our auditors, Ernst & Young Inc. have reviewed the condensed consolidated interim financial statements. The unmodified review report is available for inspection at the Group's registered office.

**Board approval**

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Telkom (Board) on 13 November 2014.

**Preparation and supervisor of annual financial statements**

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



# 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. Among the factors that could cause our actual results or outcomes to differ materially from our expectations, include but, are not limited to those risks identified in Telkom's most recent annual report, which is available on Telkom's website at www.telkom.co.za/ir.

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

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

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

**All commentary, messaging and indicators in this report exclude retrenchment, voluntary early retirement and severance package costs of R325 million, the related tax impact of R91 million for the six months ended September 2014, as well as the R2 173 million net curtailment gain on the post-retirement medical aid liability in the six months ended 30 September 2013.**

# GROUP SALIENT FEATURES

| HEPS | Net revenue | Operating expenses | EBITDA |
|---|---|---|---|
| 261.7 CENTS | R13.3 BILLION | R9.2 BILLION | R4.4 BILLION |
| +14.9% | +1.6% | -2.4% | +12.1% |

Free cash flow generated remains strong at **R1.7 BILLION**

Group net debt decreased **74.1%** to R545 million from March 2014

ADSL subscribers increased **7.4%** to 965 046

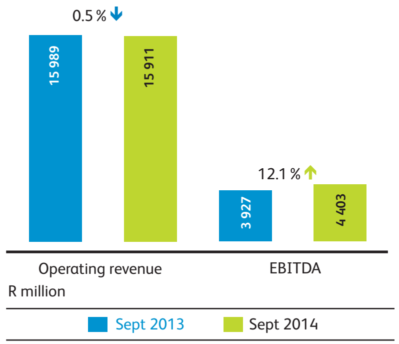
Calling plan subscribers increased **2.8%** to 859 622

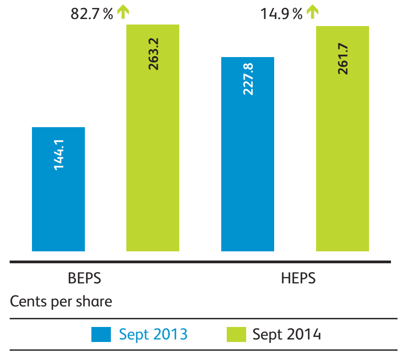
Managed data network sites increased **5.3%** to 47 830

Active mobile subscribers increased **26.7%** to 2 024 495 with a blended ARPU of R71.99

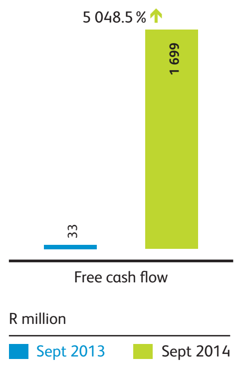
Mobile sites integrated increased **10.5%** to 2 473

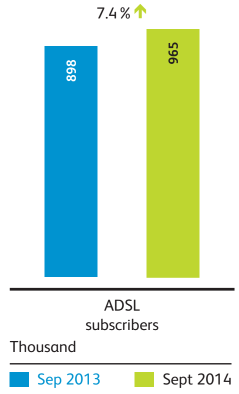
**1 275** LTE sites integrated

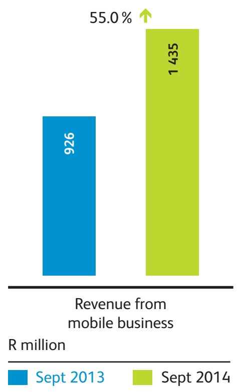


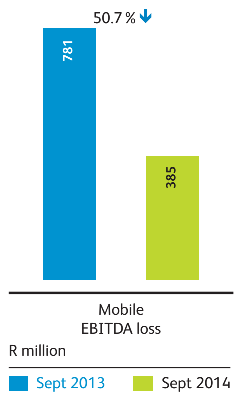



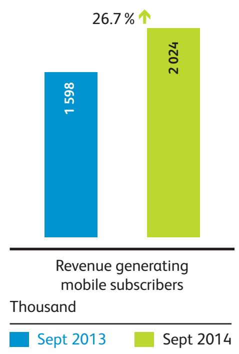




# OVERVIEW

Johannesburg, South Africa – 17 November 2014, Telkom SA SOC Ltd (JSE: TKG) today announced Group interim results for the six months ended 30 September 2014.

## MESSAGE FROM TELKOM GROUP CEO SIPHO MASEKO

The operating environment has been challenging over the past six months. The telecoms industry remains very competitive and as a result, margins are under strain, particularly in the enterprise segment. Fixed-line revenues also remain under severe pressure and leased line revenues continue to decline.

Our customers are also feeling the effect of the adverse economic environment and are adjusting usage and purchasing patterns. Telkom's good reputation and relationships have served us well in retaining key customers, however, discounts are deeper owing to competitive pressure.

Our transformational strategies, which began in 2013, are still on track, and our results for the first six months of the 2015 financial year confirm our continuous intent of stabilising the business for future growth.

Net operating revenue of R13.3 billion or 1.6% higher was stable despite the tough economic and operating environment, competitive pressures and a customer base seeking better value for money. Over the period, Group fixed-line voice revenue and data leased line revenue continued to decline, the latter as a result of self-provisioning by other licensed operators, which was partly offset by higher mobile revenue.

Customer service is a strong priority across all areas of the Group. Our efforts and progress in this regard are evidenced by the achievement of the best compliments to complaints ratio in the industry in the HelloPeter telecommunications league table, as well as being recognised as the best fixed and mobile broadband providers at the 2014 MyBroadband forum. These awards are based on services offered and innovation in the broadband space.

Group operating expenses remain an area of focus as we address our entire operating cost base extracting efficiencies as well as improving our ability to respond to an evolving industry. As part of our multi-year cost transformation programme, the focus has been to reduce all costs including employee, marketing and security costs. We also decreased our number of leased vehicles. Operating expenditure, excluding depreciation, decreased by 2.4% to R9.2 billion. This was largely due to a R199 million reduction in employee expenses relating to lower service and interest cost as a result of the lower post-retirement medical aid liability and a lower headcount.

Group EBITDA improved 12.1% to R4.4 billion, with a consolidated EBITDA margin (excluding one-off items) of 27.7%. The mobile business produced a solid performance with EBITDA improving 50.7% from the prior period. We expect to realise our operating margins as cost savings linked to our various initiatives begin to filter through.

Our capital structure remains strong as we continue to take a measured approach to our capital expenditure programme with a focus on returns. In this regard, we continue our focus of extracting efficiencies from our assets and liabilities. This has resulted in a significant increase in free cash flow to R1.7 billion. Over the next six months, we will continue rigorously focusing on project selection, concentrated roll-outs and relevant technology deployment, and expect an accelerated capital expenditure over this period.

We are aware of the significant challenges that lie ahead for the next six months, including the continuous decline in voice revenue, self-provisioning by other licensed operators and the need to improve our service offering.

We remain determined to successfully execute our strategy by focusing on the following priorities and enablers in the near term:

- Deliver superior customer experience;
- Disciplined capital allocation with greater emphasis on productivity and returns;
- Complete corporate transactions – awaiting approval for MTN agreement and BCX;
- Improve efficiency – address all costs; and
- Find revenue growth – to secure future.

## PROSPECTS

Given our performance in the past six months, we are still committed to our financial guidance, but remain cautious of the negative economic headwinds.

Subject to the financial performance of the Group, the operating environment, growth opportunities and debt and cash levels, the Board intends to reinstate a dividend for the 2015 financial year.

We continue to work with the regulatory authorities in respect of the acquisition by Telkom of the entire issued share capital of Business Connexion Group Limited. The salient dates relevant to the proposed transaction, as previously announced, are no longer applicable as relevant regulatory approvals are still being obtained. We are pleased to confirm that the Botswana Competition Authority recently concluded its investigation and approved the transaction without conditions. Shareholders will be informed if and when all the relevant regulatory authorities approve the proposed transaction, and revised salient dates will be announced accordingly.

We have also been in discussion with MTN South Africa regarding the extension of our existing roaming agreement to include bilateral roaming and outsourcing of the operation of our radio access network. Our agreement with MTN, if approved by the Competition Authorities, improve the capabilities of each operator to compete at the wholesale and retail levels; and will allow for the footprint of both parties to increase. Both operators will have access to significantly larger voice and data capacity, at lower cost than would otherwise have applied. The objective is to improve our position in the mobile market and allow Telkom to compete with much larger and stronger competitors. Although this is not a complete solution for our mobile business, it represents a step in the right direction.

As previously communicated, our aim is to successfully conclude the proposed MTN South Africa and Business Connexion transactions within the current financial year.

## FURTHER CAUTIONARY RELATING TO NEGOTIATIONS WITH MTN SOUTH AFRICA

Shareholders are referred to the various cautionary announcements published on the Stock Exchange News Service of the JSE Limited, the last of which was released on 10 October 2014.

Shareholders are further advised that Telkom and MTN South Africa remain in discussions regarding the potential extension of their existing roaming agreement to include bilateral roaming and outsourcing of the operation of Telkom's radio access network, which if successfully concluded may have a material effect on the price of Telkom's securities. The parties will update shareholders as soon as they receive the appropriate legal and regulatory approvals.

Accordingly, shareholders are advised to continue exercising caution when dealing in Telkom securities until a further announcement in this regard is made.

## FINANCIAL GUIDANCE

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

| | 2015 | 2016 |
|---|---|---|
| Net revenue | **Stabilise to grow** | Stabilise to grow |
| EBITDA margin | **26% – 27%** | 27% – 28% |
| Capex to revenue | **14% – 17%** | 14% – 17% |
| Net debt to EBITDA | **≤1** | ≤1 |
| *Our intention is to reinstate dividend for the 2015 financial year | | |

**In terms of dividend considerations stated above.*
*The information 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 subsidiaries, Trudon and Swiftnet, is also shown separately. The Telkom category represents Telkom Company's contribution to the Group, including consolidation entries.

The comparative information for September 2013 has been restated as a result of the reclassification of iWayAfrica as a discontinued operation and to account for the change in accounting policy regarding the Cell Captive. Refer to note 2.3 in the condensed consolidated interim financial statements.

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

- Income relating to undersea cables activities that are not in the ordinary course of business of R34 million has been reclassified from operating revenue to other income.
- Sundry income of R49 million has been reclassified from selling, general and administrative expenses to other income.
- Motor insurance scheme expenses of R37 million, previously included in service fees, have been reclassified as employee expenses.

# OVERVIEW (continued)

## RESULTS FROM OPERATIONS

The Group recorded a profit after tax of R1.2 billion (September 2013: R3.0 billion). This is significantly lower than the previous year and was driven by a one-off R2 173 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 R325 million for 406 employees in the current reporting period.

**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 R1 390 million (September 2013: R791 million) and EBITDA of R4 403 million (September 2013: R3 927 million), resulting in a 14.9% 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 lower service and interest cost as a result of the lower post-retirement medical aid liability, which was curtailed in the prior period as well as lower full-time and part-time staff headcount.

We managed to reduce the EBITDA loss of our Mobile business by 50.7% by increasing service and subscriptions revenue (excluding equipment sales) by 48.0%. We also recorded promising growth of 39.3% in mobile data revenue and 23.3% in IT Business services revenue. Data revenue now constitutes approximately 34.2% of Group revenue, which increased 0.5% from the prior reporting period. 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 2.4%. This reduction was largely driven by lower employee, marketing and security costs and a decrease in the number of leased vehicles. 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 74.1% to R 545 million at 30 September 2014.



# OPERATIONAL **DATA**

| | September 2014 | September 2013 | % |
|---|---|---|---|
| ADSL subscribers[1] | **965 046** | 898 203 | 7.4 |
| Closer subscribers | **859 622** | 836 312 | 2.8 |
| Internet all access subscribers[2] | **558 902** | 512 293 | 9.1 |
| Fixed access lines ('000)[3] | **3 531** | 3 713 | (4.9) |
| Post-paid | **2 346** | 2 396 | (2.1) |
| Post-paid – ISDN channels | **719** | 750 | (4.1) |
| Pre-paid | **405** | 478 | (15.3) |
| Payphones | **61** | 89 | (31.5) |
| Ports activated via MSAN access | **696 392** | 183 880 | 278.7 |
| Fixed-line penetration rate (%)[4] | **6.8** | 7.2 | (0.4) |
| Revenue per fixed access line (ZAR) | **2 256** | 2 279 | (1.0) |
| Total fixed-line traffic (millions of minutes) | **8 444** | 8 991 | (6.1) |
| Managed data network sites | **47 830** | 45 441 | 5.3 |
| Telkom Company employees[5] | **18 796** | 19 316 | (2.7) |
| Trudon employees | **475** | 487 | (2.5) |
| Swiftnet employees | **113** | 111 | 1.8 |
| Fixed access lines per employee[5] | **188** | 192 | (2.1) |
| Active mobile subscribers[6] | **2 024 495** | 1 598 173 | 26.7 |
| Pre-paid | **1 595 130** | 1 283 615 | 24.3 |
| Post-paid | **429 365** | 314 558 | 36.5 |
| Mobile base stations constructed | **2 595** | 2 578 | 0.7 |
| Mobile sites integrated | **2 473** | 2 238 | 10.5 |
| LTE sites integrated | **1 275** | 871 | 46.4 |
| ARPU (Rand) | **71.99** | 58.81 | 22.4 |
| Pre-paid | **37.42** | 28.75 | 30.2 |
| Post-paid | **206.26** | 156.63 | 31.7 |
| Churn % – pre-paid | **44.4** | 52.0 | 7.6 |

1. *Excludes Telkom internal lines and 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 | September 2014 | September 2013 | % |
|---|---|---|---|
| Voice and subscriptions | **7 847** | 8 185 | (4,1) |
| Fixed-line usage | **3 584** | 4 071 | (12,0) |
| Fixed-line subscriptions | **3 915** | 3 889 | 0,7 |
| Mobile voice and subscriptions | **348** | 225 | 54,7 |
| Interconnection | **728** | 739 | (1,5) |
| Fixed-line domestic | **225** | 236 | (4,7) |
| Fixed-line international | **443** | 470 | (5,7) |
| Mobile interconnection | **60** | 33 | 81,8 |
| Data | **5 448** | 5 419 | 0,5 |
| Data connectivity[1] | **2 744** | 2 757 | (0,5) |
| Leased line facilities | **741** | 941 | (21,3) |
| Internet access and related services | **884** | 846 | 4,5 |
| Managed data network services | **507** | 444 | 14,2 |
| Multi-media services | **23** | 25 | (8,0) |
| Mobile data | **422** | 303 | 39,3 |
| IT Business Services revenue | **127** | 103 | 23,3 |
| Customer premises equipment sales and rentals | **1 140** | 864 | 31,9 |
| Sales | **112** | 135 | (17,0) |
| Rentals | **423** | 364 | 16,2 |
| Mobile handset and equipment sales | **605** | 365 | 65,8 |
| Other | **174** | 172 | 1,2 |
| Trudon | **528** | 562 | (6,1) |
| Swiftnet | **46** | 48 | (4,2) |
| **Total** | **15 911** | 15 989 | (0,5) |

***Reclassification of comparative information***

1. *Income relating to the undersea cables activities that are not in the ordinary course of business of R34 million has been reclassified from data connectivity revenue to other income.*

Group operating revenue decreased 0.5% to R15 911 million (September 2013: R15 989 million), driven by the continuous decline in fixed-line voice revenue and lower data leased line revenue resulting from self-provisioning by other licensed operators, partly offset by higher mobile revenue.

Fixed-line voice usage revenue continued its downward trend, decreasing 12.0% to R3 584 million (September 2013: R4 071 million). This can be attributed to a 6.1% decline in voice minutes, resulting from fixed-to-mobile substitution and a 4.9% decline in the number of lines. The decrease was predominantly in residential lines, but business lines also decreased due to the consolidation of business activities and cost-saving initiatives.

Fixed-line subscriptions revenue grew 0.7% to R3 915 million (September 2013: R3 889 million) as a result of average line rental tariff increases of around 6%.

Mobile voice and subscriber revenue increased 54.7% to R348 million (September 2013: R225 million). This can be attributed to a 26.7% increase in the number of active mobile subscribers and a 22.4% increase in blended ARPU.

Fixed-line domestic interconnection revenue decreased 4.7% to R225 million (September 2013: R236 million), primarily driven by lower mobile-to-fixed volumes.

The 5.7% decrease in fixed-line international interconnection revenue to R443 million (September 2013: R470 million) was driven by lower switched hubbing revenue as traffic volumes to certain African countries reduced.

Revenue from data connectivity services decreased 0.5% to R2 744 million (September 2013: R2 757 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 Metro Ethernet services and ADSL revenue. ADSL revenue increased as a result of a 7.4% increase in ADSL subscribers to 965 046 (September 2013: 898 203).

With continued self-provisioning by other licensed operators, revenue from leased line facilities remained under pressure and declined 21.3% to R741 million (September 2013: R941 million).

Higher growth of 9.1% on Internet subscribers was supported by a 4.5% increase in Internet access and related services revenue.

Managed data network services revenue increased 14.2% to R507 million (September 2013: R444 million) due to an increase of 5.3% in the number of sites to 47 830 (September 2013: 45 441).

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 39.3% increase in mobile data revenue to R422 million (September 2013: R303 million).

We won some key strategic deals in the IT market, which boosted our IT Business services data revenue by 23.3% to R127 million (September 2013: R103 million).

The strategic decision that was made to discontinue sales of PC and gaming equipment saw a 17.0% decline in customer premises equipment sales to R112 million (September 2013: R135 million). Despite this, our rentals increased 16.2% to R423 million (September 2013: R364 million) due to increased uptake in next generation equipment rentals and higher tariffs.

Mobile handset and equipment sales revenue increased 65.8%, driven by higher bulk sales to dealers and a sharp increase in smartphone and tablet sales.

## GROUP OTHER INCOME

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Telkom[1] | **254** | 214 | 18.7 |
| Trudon | **17** | 14 | 21.4 |
| Swiftnet | **1** | 1 | – |
| **Total** | **272** | 229 | 18.8 |

***Reclassification of comparative information***

1. *Income relating to undersea cables activities that are not in the ordinary course of business of R34 million has been reclassified from operating revenue to other income and sundry income of R49 million previously included in selling, general and administrative expenses was reclassified as 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 18.8% to R272 million (September 2013: R229 million) mainly as a result of higher profit on sale of properties.

## GROUP DIRECT EXPENSES

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Payments to other operators | **1 446** | 1 928 | 25.0 |
| Direct cost | **261** | 257 | (1.6) |
| Cost of sales | **905** | 717 | (26.2) |
| **Total** | **2 612** | 2 902 | 10.0 |

## TELKOM DIRECT EXPENSES

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Payments to other operators | **1 435** | 1 913 | 25.0 |
| Mobile network operators | **675** | 1 120 | 39.7 |
| International network operators | **429** | 456 | 5.9 |
| Fixed-line network operators | **179** | 181 | 1.1 |
| Data commitments | **152** | 156 | 2.6 |
| Direct cost | **261** | 258 | (1.2) |
| Cost of sales | **728** | 541 | (34.6) |
| **Total** | **2 424** | 2 712 | 10.6 |

Payments to mobile operators decreased 39.7% as a result of a reduction in mobile termination rates. The 34.6% increase in cost of sales is largely attributed to the increase in the cost of mobile device sales.

# FINANCIAL
# PERFORMANCE (continued)

## GROUP OPERATING EXPENSES

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Employee expenses[1] | **4 727** | 4 987 | 5.2 |
| Selling, general and administrative expenses[2] | **2 341** | 2 391 | 2.1 |
| Service fees[1] | **1 596** | 1 513 | (5.5) |
| Operating leases | **504** | 498 | (1.2) |
| Operating expenses excluding depreciation, amortisation, impairments and write-offs | **9 168** | 9 389 | 2.4 |
| Depreciation, amortisation, impairments and write-offs | **2 489** | 3 091 | 19.5 |
| **Total** | **11 657** | 12 480 | 6.6 |

***Reclassification of comparative information***

*1. Motor insurance scheme expenses of R37 million, previously included in service fees have been reclassified as employee expenses.*

*2. Sundry income of R49 million previously included in other expenses has been reclassified as other income.*

Group operating expenses decreased by 6.6% to R11 657 million (September 2013: R12 480 million) in the six months ended 30 September 2014, primarily due to lower asset impairments and accelerated depreciation on new connections installed to customer premises included in the prior period as well as lower employee expenses as a result of the curtailment of the post-retirement medical aid liability in the prior period.

## GROUP OPERATING EXPENDITURE CONTRIBUTION

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Telkom | **11 440** | 12 278 | 6.8 |
| Trudon | **168** | 155 | (8.4) |
| Swiftnet | **49** | 47 | (4.3) |
| **Total** | **11 657** | 12 480 | 6.6 |

## TELKOM OPERATING EXPENDITURE

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Employee expenses[1] | **4 575** | 4 849 | 5.7 |
| Salaries and wages | **3 674** | 3 649 | (0.7) |
| Benefits[1] | **1 117** | 1 350 | 17.3 |
| Workforce reduction expenses | **–** | 64 | 100.0 |
| Employee related expenses capitalised | **(216)** | (214) | (0.9) |
| Selling, general and administrative expenses[2] | **2 337** | 2 390 | 2.2 |
| Materials and maintenance | **1 555** | 1 554 | (0.1) |
| Marketing | **322** | 453 | 28.9 |
| Bad debts | **103** | 41 | (151.2) |
| Other[2] | **357** | 342 | (4.4) |
| Service fees[1] | **1 591** | 1 505 | (5.7) |
| Property management | **942** | 836 | (12.7) |
| Consultants, security and other[3] | **649** | 669 | 3.0 |
| Operating leases | **479** | 475 | (0.8) |
| Buildings | **229** | 205 | (11.7) |
| Equipment | **19** | 19 | – |
| Vehicles | **231** | 251 | 8.0 |
| Depreciation, amortisation, impairments and write-offs | **2 458** | 3 059 | 19.7 |
| Depreciation | **2 092** | 2 294 | 8.8 |
| Amortisation | **323** | 316 | (2.2) |
| Impairment and write-offs | **43** | 449 | 90.4 |
| **Total** | **11 440** | 12 278 | 6.8 |

***Reclassification of comparative information***

*1. Motor insurance scheme expenses of R37 million, previously included in service fees have been reclassified as employee expenses.*

*2. Sundry income of R49 million previously included in other expenses has been reclassified as other income.*

*3. R3 million relating to Cell Captive has been reclassified as foreign exchange and fair value movements as Cell Captive is no longer consolidated.*

Employee expenses were 5.7% lower due a R199 million reduction in service and interest cost as a result of the lower post-retirement medical aid liability, a 2.7% reduction in full-time employee headcount and lower part-time staff headcount. This was negated by a 6.2% average salary increase for bargaining unit employees and a 6.0% average salary increase for management employees.

Selling, general and administrative expenses decreased 2.2% to R2 337 million (September 2013: R2 390 million), as a result of lower marketing expenses offset by increased bad debts as we made provision based on the adverse economic conditions affecting payment patterns.

Space optimisation projects and higher electricity tariffs led to a 12.7% increase in property management expenses. Consultants, security and other service fees decreased 3.0%, driven by lower consulting costs incurred relating to the Company's transformation programme and lower security cost as a result of cost-saving initiatives.

Building leases increased 11.7% as a result of an increase in the number of mobile sites acquired. The 8.0% decrease in vehicle leases was mainly attributed to a 5.4% decrease in number of vehicles to 5 959 (September 2013: 6 298).

Depreciation decreased 8.8% to R2 092 million (September 2013: R2 294 million) due to accelerated depreciation on new connections installed to customer premises included in the prior period. Impairments and write-offs declined 90.4% to R43 million (September 2013: R449 million). This decline is largely attributable to the impairment of certain legacy and technologically aged items in the prior period.

### Mobile operating expenditure

Telkom Mobile, details of operating expenditure are provided below.

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Payments to other operators | **224** | 230 | 2.6 |
| Direct cost | **211** | 215 | 1.9 |
| Cost of sales | **542** | 331 | (63.8) |
| Employee expenses | **192** | 182 | (5.5) |
| Selling, general and administrative expenses | **471** | 572 | 17.7 |
| Service fees | **55** | 70 | 21.4 |
| Operating leases | **128** | 107 | (19.6) |
| Depreciation, amortisation, impairments and write-offs | **308** | 248 | (24.2) |
| **Total** | **2 131** | 1 955 | (9.0) |

## EBITDA

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Telkom | **4 185** | 3 662 | 14.3 |
| EBITDA margin (%) | **27.3** | 23.8 | 3.5 |
| Trudon | **221** | 266 | (16.9) |
| EBITDA margin (%) | **41.9** | 47.3 | (5.4) |
| Swiftnet | **(3)** | (1) | 200.0 |
| EBITDA margin (%) | **(6.5)** | (2.1) | (4.4) |
| **Total** | **4 403** | 3 927 | 12.1 |

## INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 13.4% to R127 million (September 2013: R112 million) as a result of higher cash balances held by the Group.

# FINANCIAL **PERFORMANCE** (continued)

## 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 81.2% to R59 million (September 2013: R314 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 increased 6.3% to R286 million (September 2013: R269 million) as a result of a 22.3% increase in interest-bearing debt from 31 March 2014.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's capital structure remains strong. Net debt, including financial assets and liabilities, decreased 74.1% to R545 million from R2 108 million as at 31 March 2014, resulting in a net debt to EBITDA ratio of 0.1 times. On 30 September 2014, the Group had cash balances, including other financial assets and liabilities, of R4 409 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 | September 2014 | September 2013 | % |
|---|---|---|---|
| Cash generated from operations before dividends paid as reported | **3 469** | 3 166 | 9.6 |
| Cash paid for capital expenditure | **(1 770)** | (3 133) | 43.5 |
| **Free cash flow** | **1 699** | 33 | 5 048.5 |

Free cash flow increased significantly to R1 699 million (September 2013: R33 million) as a result of a 43.5% 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 42.8% to R1 815 million (September 2013: R3 171 million) and represents 11.4% of Group operating revenue (September 2013: 19.8%).

| In ZAR millions | September 2014 | September 2013 | % |
|---|---|---|---|
| Baseline | **864** | 1 083 | 20.2 |
| Network evolution | **576** | 1 014 | 43.2 |
| Mobile | **164** | 815 | 79.9 |
| Sustenance | **76** | 60 | (26.7) |
| Effectiveness and efficiency | **48** | 58 | 17.2 |
| Support | **39** | 91 | 57.1 |
| Other | **3** | 2 | (50.0) |
| Trudon | **39** | 35 | (11.4) |
| Swiftnet | **6** | 13 | 53.8 |
| **Total** | **1 815** | 3 171 | 42.8 |

Baseline capital expenditure of R864 million (September 2013: R1 083 million) consists largely of the deployment of technologies to support the growing data services business, links to the mobile cellular operators and access line deployment in selected high-growth commercial and business areas. The reduction in expenditure for the period is due to the provision of ADSL and Metro Ethernet services under the Next Generation Network programme included in the network evolution category.

Network evolution expenditure of R576 million (September 2013: R1 014 million) is related to the continued roll-out 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 in this six-month period is largely due to a more rigorous focus on project selection, in accordance with the Company's focus on efficient execution of its strategy. Our rollout was also impacted by the availability of material as a result of the strikes in the manufacturing sector and the timely availability of way leaves.

Mobile capital expenditure decreased 79.9% to R164 million (September 2013: R815 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 R76 million (September 2013: R60 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 decrease in the effectiveness and efficiency category to R48 million (September 2013: R58 million) was as a result of lower expenditure for the movement of staff from leased buildings to owned buildings.

The support capital expenditure of R39 million (September 2013: R91 million) is primarily related to the provision of new buildings and building extensions in support of network growth, building compliance upgrades and the purchase of test equipment for technical staff. This category decreased 57.1%, mainly due to a reduction in expenditure for the rebranding of Telkom stores.

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

for the six months ended 30 September 2014

| | Notes | Reviewed Six months ended 30 September 2014 Rm | Restated* Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| **Total revenue** | 4 | **16 257** | 16 324 | 33 061 |
| **Operating revenue** | | **15 911** | 15 989 | 32 400 |
| Payments to other operators | 5.1 | **1 446** | 1 928 | 3 944 |
| Cost of sales | 5.2 | **1 166** | 974 | 2 498 |
| **Net operating revenue** | | **13 299** | 13 087 | 25 958 |
| Other income | | **272** | 229 | 562 |
| **Operating expenses** | | **11 982** | 10 307 | 21 918 |
| Employee expenses | 5.3 | **5 052** | 2 814 | 7 137 |
| Selling, general and administrative expenses | 5.4 | **2 341** | 2 391 | 4 682 |
| Service fees | 5.5 | **1 596** | 1 513 | 3 110 |
| Operating leases | 5.6 | **504** | 498 | 1 052 |
| Depreciation, amortisation, impairment, write-offs and losses | 5.7 | **2 489** | 3 091 | 5 937 |
| **Operating profit** | | **1 589** | 3 009 | 4 602 |
| **Investment income** | | **127** | 112 | 176 |
| **Finance charges and fair value movements** | | **(227)** | 45 | (292) |
| Finance charges | | **(286)** | (269) | (636) |
| Foreign exchange and fair value movements | | **59** | 314 | 344 |
| **Profit before taxation** | | **1 489** | 3 166 | 4 486 |
| Taxation expense | 6 | **333** | 202 | 494 |
| **Profit from continuing operations** | | **1 156** | 2 964 | 3 992 |
| **Loss from discontinued operations** | 7 | **–** | (18) | (49) |
| **Profit for the period** | | **1 156** | 2 946 | 3 943 |
| **Other comprehensive income** | | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | | |
| Exchange gains on translating foreign operations | | **–** | – | 4 |
| Recycling of foreign currency translation reserve | | **–** | 5 | 122 |
| **Items that will not be reclassified to profit or loss** | | | | |
| Defined benefit plan actuarial (losses)/gains | | **(1 306)** | 1 101 | 2 277 |
| Defined benefit plan asset ceiling limitation gains/(losses) | | **1 026** | (245) | (1 106) |
| Income tax relating to components of other comprehensive income | 8 | **78** | (69) | (157) |
| **Other comprehensive income for the period, net of taxation** | | **(202)** | 792 | 1 140 |
| **Total comprehensive income for the period** | | **954** | 3 738 | 5 083 |
| **Profit attributable to:** | | | | |
| Owners of Telkom | | **1 110** | 2 891 | 3 822 |
| Non-controlling interests | | **46** | 55 | 121 |
| **Profit for the period** | | **1 156** | 2 946 | 3 943 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of Telkom | | **908** | 3 683 | 4 962 |
| Non-controlling interests | | **46** | 55 | 121 |
| **Total comprehensive income for the period** | | **954** | 3 738 | 5 083 |
| **Total operations** | | | | |
| Basic earnings per share (cents) | 9 | **217.4** | 566.2 | 748.5 |
| Diluted earnings per share (cents) | 9 | **213.7** | 566.2 | 744.8 |
| **Continuing operations** | | | | |
| Basic earnings per share (cents) | 9 | **217.4** | 569.7 | 758.1 |
| Diluted earnings per share (cents) | 9 | **213.7** | 569.7 | 754.3 |

**Refer to note 2.3.*

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF **FINANCIAL POSITION**

at 30 September 2014

| | Notes | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | **30 466** | 30 519 | 31 039 |
| Property, plant and equipment | 10 | **24 493** | 24 876 | 25 123 |
| Intangible assets | 10 | **2 779** | 2 665 | 2 833 |
| Other investments | | **2 891** | 2 612 | 2 759 |
| Deferred expenses | | **38** | 39 | 35 |
| Other financial assets | 13 | **56** | 76 | 74 |
| Finance lease receivables | | **193** | 210 | 202 |
| Deferred taxation | 11 | **16** | 41 | 13 |
| **Current assets** | | **11 011** | 9 094 | 8 366 |
| Inventories | 12 | **738** | 832 | 646 |
| Income tax receivable | | **27** | 18 | 8 |
| Current portion of finance lease receivables | | **111** | 125 | 118 |
| Trade and other receivables | | **5 589** | 5 861 | 5 565 |
| Other financial assets | 13 | **634** | 1 067 | 187 |
| Cash and cash equivalents | 14 | **3 912** | 1 191 | 1 842 |
| **Total assets** | | **41 477** | 39 613 | 39 405 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to owners of the parent** | | **23 720** | 21 482 | 22 771 |
| Share capital | | **5 208** | 5 208 | 5 208 |
| Treasury shares | | **(771)** | (771) | (771) |
| Share-based compensation reserve | | **53** | – | 11 |
| Non-distributable reserves | | **2 711** | 2 311 | 2 580 |
| Retained earnings | | **16 519** | 14 734 | 15 743 |
| Non-controlling interests | | **354** | 398 | 377 |
| **Total equity** | | **24 074** | 21 880 | 23 148 |
| **Non-current liabilities** | | **6 062** | 7 403 | 6 156 |
| Interest-bearing debt | 16 | **3 398** | 3 841 | 3 775 |
| Employee related provisions | 17 | **1 692** | 2 323 | 1 388 |
| Non-employee related provisions | 17 | **53** | 320 | 108 |
| Deferred revenue | | **899** | 903 | 869 |
| Deferred taxation | 11 | **20** | 16 | 16 |
| **Current liabilities** | | **11 341** | 10 330 | 10 101 |
| Trade and other payables | | **5 114** | 5 677 | 5 119 |
| Shareholders for dividend | | **20** | 22 | 21 |
| Current portion of interest-bearing debt | 16 | **1 612** | 493 | 321 |
| Current portion of employee related provisions | 17 | **1 652** | 1 494 | 1 597 |
| Current portion of non-employee related provisions | 17 | **434** | 683 | 731 |
| Current portion of deferred revenue | | **1 511** | 1 574 | 1 431 |
| Income tax payable | | **861** | 358 | 782 |
| Current portion of other financial liabilities | | **131** | 28 | 98 |
| Credit facilities utilised | 14 | **6** | 1 | 1 |
| **Total liabilities** | | **17 403** | 17 733 | 16 257 |
| **Total equity and liabilities** | | **41 477** | 39 613 | 39 405 |

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2014

| | Reviewed Six months ended 30 September 2014 Rm | Audited Year ended 31 March 2014 Rm | Reviewed Six months ended 30 September 2013 Rm |
|---|---|---|---|
| **Balance at 1 April** | **23 148** | 18 177 | 18 177 |
| Attributable to owners of Telkom | **22 771** | 17 798 | 17 798 |
| Non-controlling interests | **377** | 379 | 379 |
| **Total comprehensive income for the period** | **954** | 5 083 | 3 738 |
| Profit for the period | **1 156** | 3 943 | 2 946 |
| **Other comprehensive income** | **(202)** | 1 140 | 792 |
| Exchange differences on translating foreign operations | **–** | 4 | 5 |
| Recycling of foreign currency translation reserve | **–** | 122 | – |
| Net defined benefit plan remeasurements | **(941)** | 1 971 | 1 012 |
| Net defined benefit plan asset ceiling limitation gains/(losses) | **739** | (957) | (225) |
| Dividend paid* | **(70)** | (123) | (35) |
| Increase in share-compensation reserve | **42** | 11 | – |
| **Balance at end of period** | **24 074** | 23 148 | 21 880 |
| Attributable to owners of Telkom | **23 720** | 22 771 | 21 482 |
| Non-controlling interests | **354** | 377 | 398 |

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

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the six months ended 30 September 2014

| | Note | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|---|
| **Cash flows from operating activities** | | **3 398** | 3 131 | 6 366 |
| Cash receipts from customers | | **16 017** | 15 999 | 32 455 |
| Cash paid to suppliers and employees | | **(12 437)** | (12 527) | (26 143) |
| Cash generated from operations | | **3 580** | 3 472 | 6 312 |
| Interest received | | **216** | 186 | 358 |
| Finance charges paid | | **(160)** | (230) | (585) |
| Taxation refund | | **–** | – | 854 |
| Taxation paid | | **(167)** | (262) | (449) |
| Cash generated from operations before dividend paid | | **3 469** | 3 166 | 6 490 |
| Dividend paid | | **(71)** | (35) | (124) |
| **Cash flows from investing activities** | | **(2 218)** | (2 060) | (4 333) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **52** | 2 | 67 |
| Additions to property, plant and equipment and intangible assets | | **(1 770)** | (3 133) | (6 370) |
| (Increase)/decrease in repurchase agreements | | **(500)** | 1 071 | 1 970 |
| **Cash flows from financing activities** | | **884** | (2 259) | (2 583) |
| Loans raised | | **1 000** | 300 | 300 |
| Loans repaid | | **(123)** | (2 712) | (3 036) |
| Finance lease capital repaid | | **(84)** | (77) | (156) |
| Settlement of derivatives | | **91** | 230 | 309 |
| **Net increase/(decrease) in cash and cash equivalents** | | **2 064** | (1 188) | (550) |
| Net cash and cash equivalents at beginning of period | | **1 841** | 2 384 | 2 381 |
| Effect of foreign exchange rate differences on cash and cash equivalents | | **1** | (6) | 10 |
| **Net cash and cash equivalents at end of period** | 14 | **3 906** | 1 190 | 1 841 |

**Refer to note 7 for cash flow activities on discontinued operations of the iWayAfrica Group over which control was relinquished on disposal.*

# NOTES TO THE CONDENSED CONSOLIDATED **INTERIM FINANCIAL STATEMENTS**

for the six months ended 30 September 2014

## 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 interim 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 interim 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 interim financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. The results of the interim period are not necessarily indicative of the results for the entire year and these reviewed financial statements should be read in conjunction with the audited financial statements for the year ended 31 March 2014.

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

### Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated interim 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 interim 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.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements.

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

| Pronouncement | Title | 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 IFRSs for business combinations. | 1 January 2016 |
| IAS 16 Property, Plant and Equipment | Revaluation method: proportionate restatement of accumulated depreciation of an item of property, plant and equipment. | 1 July 2014 |
| IAS 16 Property, Plant and Equipment | 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 | Amendments regarding the clarification of acceptable methods of depreciation and amortisation. | 1 January 2016 |
| 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 |
| IAS 32 Financial Instruments: Presentation | Amendments 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 | Revaluation method: proportionate restatement of accumulated amortisation of an intangible asset. | 1 July 2014 |
| IAS 38 Intangible Assets | Amendments regarding the clarification of acceptable methods of depreciation and amortisation. | 1 January 2016 |
| IAS 39 Financial instruments: Recognition and Measurement | Amendments for novation of derivatives and the continuation of hedge accounting. | 1 January 2014 |
| IAS 40 Investment Property | 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 |

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

**The new standards and amendments to standards 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.**

| 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 | Amendments 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. *Offsetting of financial assets and liabilities disclosures' applicability to condensed interim financial statements* clarifies the applicability of offsetting amendments to IFRS 7 disclosures in condensed interim financial statements. | 1 January 2016 |
| IFRS 9 Financial Instruments | Classification and measurement of financial assets and financial liabilities and derecognition requirements. | 1 January 2018 |

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.2 Standards and interpretations in issue not yet adopted and not yet effective (continued)

| Pronouncement | Title | Effective date |
|---|---|---|
| IFRS 10 Consolidated Financial Statements | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: the amendment of the accounting for a split of gains or losses on the loss of control between:<br>(i) the recognition of gains or losses in profit or loss of a parent company; and<br>(ii) the elimination against the carrying amounts of investments in the existing associate/joint venture and former subsidiary when a subsidiary is sold or its assets are contributed (loss of control) to an entity's associate or joint venture. | 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 |
| 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. | 1 January 2016 |
| IFRS 15 Revenue from contracts with customers | Replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations on revenue recognition (i.e. IFRIC 13, 15, 18 and SIC 31). Requirements for recognising revenue on all contracts with customers except those within the scope of standards on leases, insurance contracts and financial instruments. The impact is still being assessed. | 1 January 2017 |
| IAS 19 Employee Benefits | Defined Benefit Plans: Employee Contributions. The amendment clarifies 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 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 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 28 Investment in Associates or Joint Ventures | See IFRS 10 Consolidated Financial Statements | 1 January 2016 |
| IAS 34 Interim Financial Reporting | Requirement for IAS 34.16A Other Disclosures to be given either in the interim financial statements or incorporated by a cross-reference from the interim financial statements to some other statement and to 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 | Amendments 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* |

**The standards apply when IFRS 9 is applied.*

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

for the six months ended 30 September 2013

| | As previously reported Rm | Reclassification of iWayAfrica Group as a discontinued operation* Rm | IFRS 10: De-consolidation of CellCaptive** Rm | Other reclassifications*** Rm | Restated Rm |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Total revenue** | 16 482 | (176) | (31) | 49 | **16 324** |
| **Operating revenue** | 16 192 | (169) | – | (34) | **15 989** |
| Payments to other operators | 2 026 | (98) | – | – | **1 928** |
| Cost of sales | 1 001 | (27) | – | – | **974** |
| **Net operating revenue** | 13 165 | (44) | – | – | **13 087** |
| Other income | 173 | (7) | (20) | 83 | **229** |
| **Operating expenses** | 10 323 | (62) | (3) | 49 | **10 307** |
| Employee expenses | 2 814 | (37) | – | 37 | **2 814** |
| Selling, general and administrative expenses | 2 357 | (15) | – | 49 | **2 391** |
| Service fees | 1 557 | (4) | (3) | (37) | **1 513** |
| Operating leases | 504 | (6) | – | – | **498** |
| Depreciation, amortisation, impairment, write-offs and losses | 3 091 | – | – | – | **3 091** |
| **Operating profit** | 3 015 | 11 | (17) | – | **3 009** |
| **Investment income** | 123 | – | (11) | – | **112** |
| **Finance charges and fair value movements** | 10 | 7 | 28 | – | **45** |
| Interest | (269) | – | – | – | **(269)** |
| Foreign exchange gains and fair value movements | 279 | 7 | 28 | – | **314** |
| **Profit before taxation** | 3 148 | 18 | – | – | **3 166** |
| Taxation | 202 | – | – | – | **202** |
| **Profit from continuing operations** | 2 946 | 18 | – | – | **2 964** |
| **Loss from discontinuing operations** | – | (18) | – | – | **(18)** |
| **Profit for the period** | 2 946 | – | – | – | **2 946** |

**The restatements is due to the sale of the iWayAfrica group.*
***The restatement is due to the change in accounting policy related to the Cell Captive consolidation.*
****Reclassification of operating revenue, other income, employee expenses, selling general and administrative expenses and service fees. Refer to notes 4, 5.3, 5.4 and 5.5 for more detail. At 31 March 2014 R83 million was reclassified from operating revenue to other income.*

## 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, i.e. on a combined basis. As a result, Telkom has a single operating and reportable 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 (through Telkom and Cybernest), mobile voice services and handset sales.

| | Reviewed Six months ended 30 September 2014 Rm | Restated Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **4. TOTAL REVENUE** | **16 257** | 16 324 | 33 061 |
| Operating revenue | **15 911** | 15 989 | 32 400 |
| Other income (excluding profit on disposal of property, plant and equipment, intangible assets, investments and profit on disposal of subsidiary) | **219** | 223 | 485 |
| Investment income | **127** | 112 | 176 |

Operating revenue decreased due to the continuous decline in fixed-line voice revenue and lower data leased line revenue resulting from self-provisioning by other licensed operators, partially offset by higher mobile revenue.

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

**Change in comparatives**
Other income increased by R49 million as a result of a reclassification from selling and administrative expenses to sundry income.

This is income in nature and it is more appropriate to report sundry income as part of other income category instead of being offset against selling, general and administration expenditure.

Other income increased by R34 million at 30 September 2013 (31 March 2014: R83 million). 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.

## 5. EXPENSES

| | Reviewed Six months ended 30 September 2014 Rm | Restated Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **5.1 Payments to other operators** | **1 446** | 1 928 | 3 944 |
| **5.2 Cost of sales** | **1 166** | 974 | 2 498 |
| **5.3 Employee expenses** | **5 052** | 2 814 | 7 137 |

### 5.1 Payments to other operators
The decrease in payments to other network operators (interconnection fees) is due to the reduction in the mobile termination rates.

### 5.2 Cost of sales
The increase in the cost of sales is largely attributed to the increased cost of mobile device sales.

### 5.3 Employee expenses
The change in employee expenses is mainly due to a net curtailment and settlement gain of R2.2 billion that occurred in the comparative period. Included in the current financial period is an additional expense of R325 million due to the voluntary severance (VSP), voluntary early retirement (VERP) and retrenchment process as well as an average salary increase of 6%. The reduction in headcount is predominantly driven by natural attrition as well as the VSP and VERP process.

## 5. EXPENSES (continued)

**Change in comparative**
Employee expenses increased by R37 million due to the reclassification of employee vehicle insurance expense from service fees. These are short-term employee benefits derived from employment with Telkom and have therefore been reclassified accordingly to provide more relevant disclosure.

| | Reviewed Six months ended 30 September 2014 Rm | Restated Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **5.4 Selling, general and administrative expenses** | **2 341** | 2 391 | 4 682 |
| **5.5 Service fees** | **1 596** | 1 513 | 3 110 |
| **5.6 Operating leases** | **504** | 498 | 1 052 |
| **5.7 Depreciation, amortisation, impairment, write-offs and losses** | **2 489** | 3 091 | 5 937 |
| Depreciation of property, plant and equipment | **2 108** | 2 309 | 4 616 |
| Amortisation of intangible assets | **339** | 333 | 689 |
| Impairment of property, plant and equipment and intangible assets | **19** | 392 | 392 |
| Write-offs of property, plant and equipment and intangible assets | **23** | 57 | 240 |

### 5.4 Selling, general and administrative expenses
The decrease in selling and administrative expenses is as a result of lower marketing expenditure offset by an increase in the provision of impairment of trade receivables.

*Included in selling, general and administrative expenses is write-down of inventories to the value of R20 million (30 September 2013: R11 million; 31 March 2014: R53 million).*

**Change in comparative**
Sundry income of R49 million was reclassified to other income to provide more relevant disclosure. Refer to note 4.

### 5.5 Service fees
Space optimisation projects and higher electricity tariffs led to an increase in property management expenses. Consultants, security and other services fees decreased, driven by lower consulting costs incurred relating to the Company's transformation programme and lower security cost as a result of cost saving initiatives.

**Change in comparative**
Service fees decreased by R37 million due to the reclassification of employee vehicle insurance expenses to employee expenses. These are short-term employee benefits derived from employment with Telkom and have therefore been appropriately reclassified. Refer to note 5.3.

### 5.6 Operating leases
Operating leases increased as a result of an increase in the number of mobile sites acquired offset by a decrease in vehicle rentals.

### 5.7 Depreciation, amortisation, impairment, write-offs and losses
The decrease in depreciation is due to accelerated depreciation on new connections installed to customer premises coupled with the impairment of certain legacy and technologically aged items in the prior period that was not incurred to the same extent in the current financial period.

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **6. TAXATION** | **333** | 202 | 494 |
| South African normal company taxation | **255** | 273 | 625 |
| Deferred taxation (refer to note 11) | **78** | (71) | (131) |
| The decrease in normal tax is mainly due to the over provision of tax in the prior period. | | | |
| The increase in the deferred tax expense is due to the limitation and reduction of the deferred tax asset in Telkom Company as the deferred tax liability recognised through other comprehensive income has decreased. | | | |
| **7. DISCONTINUED OPERATION** | | | |
| **Pan African business, iWayAfrica and Africa Online Mauritius** | | | |
| 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 operates 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 as at 31 March 2012. Gondwana took over the assets and liabilities (including amounts owed by Telkom) for a nominal consideration. | | | |
| **Analysis of the results of the discontinued operation:** | | | |
| Revenue* | **–** | 176 | 240 |
| Expenses** | **–** | (194) | (289) |
| Loss before taxation of the discontinued operations | **–** | (18) | (49) |
| Taxation | **–** | – | – |
| Loss after taxation of the discontinued operations | **–** | (18) | (49) |
| **The net cash flows attributable to the operating, investing and financing activities of discontinued operations:** | | | |
| Operating cash flows | **–** | 1 | (38) |
| Investing cash flows | **–** | (2) | – |
| Financing cash flows | **–** | (39) | – |
| Total cash inflow*** | **–** | (40) | (38) |

**Revenue comprises operating revenue, other income and investment income.*

***Expenses comprise payments to other operators, cost of sales, operating expenses and finance charges and fair value movements.*

****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.*

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **8. TAXATION EFFECTS OF OTHER COMPREHENSIVE INCOME** | | | |
| **Tax effects relating to each component of other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | 5 | 4 |
| Recycling of foreign currency translation reserve | **–** | – | 122 |
| **Net foreign currency translation differences for foreign operations** | **–** | 5 | 126 |
| Defined benefit plan actuarial (losses)/gains | **(1 306)** | 1 101 | 2 277 |
| Tax effect of defined benefit plan actuarial gains/(losses) | **365** | (89) | (306) |
| **Net defined benefit plan actuarial gains** | **(941)** | 1 012 | 1 971 |
| Defined benefit plan asset ceiling limitation gains/(losses) | **1 026** | (245) | (1 106) |
| Tax effect of defined benefit plan asset ceiling limitation (losses)/gains | **(287)** | 20 | 149 |
| **Net defined benefit plan asset ceiling limitation** | **739** | (225) | (957) |
| **Other comprehensive income for the year before taxation** | **(280)** | 861 | 1 297 |
| **Tax effect of other comprehensive income for the year** | **78** | (69) | (157) |
| **Other comprehensive income for the year, net of taxation** | **(202)** | 792 | 1 140 |

| | Reviewed Six months ended 30 September 2014 Rm | Restated Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **9. EARNINGS PER SHARE** | | | |
| **Total operations** | | | |
| Basic earnings per share (cents) | **217.4** | 566.2 | 748.5 |
| Diluted earnings per share (cents) | **213.7** | 566.2 | 744.8 |
| Headline earnings per share (cents) | **215.8** | 649.8 | 851.4 |
| Diluted headline earnings per share (cents) | **212.1** | 649.8 | 847.1 |
| **Continuing operations** | | | |
| Basic earnings per share (cents) | **217.4** | 569.7 | 758.1 |
| Diluted earnings per share (cents) | **213.7** | 569.7 | 754.3 |
| Headline earnings per share (cents) | **215.8** | 653.3 | 861.0 |
| Diluted headline earnings per share (cents) | **212.1** | 653.3 | 856.6 |
| **Discontinued operations** | | | |
| Basic loss per share (cents) | **–** | (3.5) | (9.6) |
| Diluted loss per share (cents) | **–** | (3.5) | (9.5) |
| Headline loss per share (cents) | **–** | (3.5) | (9.6) |
| Diluted headline loss per share (cents) | **–** | (3.5) | (9.5) |
| **Reconciliation of weighted average number of ordinary shares:** | | | |
| Ordinary shares in issue | **520 783 900** | 520 783 900 | 520 783 900 |
| Weighted average number of treasury shares | **(10 190 084)** | (10 190 084) | (10 190 084) |
| Weighted average number of shares outstanding | **510 593 816** | 510 593 816 | 510 593 816 |

| | Reviewed Six months ended 30 September 2014 Rm | Restated Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **9. EARNINGS PER SHARE (continued)** | | | |
| **Reconciliation of diluted weighted average number of ordinary shares** | | | |
| Weighted average number of shares outstanding | **510 593 816** | 510 593 816 | 510 593 816 |
| Expected future vesting of shares | **8 783 562** | – | 2 587 629 |
| Diluted weighted average number of shares outstanding | **519 377 378** | 510 593 816 | 513 181 445 |
| **Total operations** | | | |
| **Reconciliation between earnings and headline earnings:** | | | |
| Profit for the year | **1 156** | 2 946 | 3 943 |
| Non-controlling interests | **(46)** | (55) | (121) |
| Profit attributable to equity holders of Telkom | **1 110** | 2 891 | 3 822 |
| Adjustments: | | | |
| Profit on disposal of property, plant and equipment and intangible assets | **(53)** | (7) | (77) |
| Loss on disposal of subsidiary | **–** | – | 23 |
| Impairment loss on property, plant and equipment and intangible assets | **19** | 392 | 392 |
| Write-offs of property, plant and equipment and intangible assets | **23** | 57 | 240 |
| Taxation effects | **3** | (15) | (53) |
| Headline earnings | **1 102** | 3 318 | 4 347 |
| **Continuing operations** | | | |
| **Reconciliation between earnings and headline earnings:** | | | |
| Profit from continuing operations | **1 156** | 2 964 | 3 992 |
| Non-controlling interest | **(46)** | (55) | (121) |
| Earnings from continuing operations attributable to equity holders of Telkom | **1 110** | 2 909 | 3 871 |
| Adjustments: | | | |
| Profit on disposal of property, plant and equipment and intangible assets | **(53)** | (7) | (77) |
| Loss on disposal of subsidiary | **–** | – | 23 |
| Impairment loss on property, plant and equipment and intangible assets | **19** | 392 | 392 |
| Write-offs of property, plant and equipment and intangible assets | **23** | 57 | 240 |
| Taxation effects | **3** | (15) | (53) |
| Headline earnings | **1 102** | 3 336 | 4 396 |
| **Discontinued operations** | | | |
| **Reconciliation between earnings and headline earnings:** | | | |
| Loss from discontinued operation | **–** | (18) | (49) |
| Loss attributable to Owners of Telkom | **–** | (18) | (49) |
| Headline earnings | **–** | (18) | (49) |

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **10. CAPITAL ADDITIONS AND DISPOSALS** | | | |
| **Property, plant and equipment** | **1 507** | 2 967 | 5 678 |
| Additions | **1 517** | 2 972 | 5 695 |
| Disposals | **(10)** | (5) | (17) |
| **Intangible assets** | **298** | 201 | 763 |
| Additions | **298** | 201 | 763 |
| Disposals | **–** | – | – |

The capital expenditure for the six months relates to the deployment of the Next Generation Network, mobile cellular services and baseline technologies. The lower expenditure in this six-month period is largely due to a more rigorous focus on project selection, in accordance with the Company's focus on efficient execution of its strategy.

In addition, mobile capital expenditure decreased due to the shift to a more concentrated rollout. 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.

| | | | |
|---|---|---|---|
| **11. DEFERRED TAXATION** | | | |
| Deferred taxation balance is made up as follows: | **(4)** | 25 | (3) |
| Deferred taxation assets | **16** | 41 | 13 |
| Deferred taxation liabilities | **(20)** | (16) | (16) |

Deferred tax assets are recognised for deductible temporary differences to the extent that the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of R1 912 million (30 September 2013: R2 242 million, 31 March 2014: R1 880 million) in respect of temporary differences amounting to R6 829 million (30 September 2013: R8 007 million, 31 March 2014: R6 714 million) that can be carried forward against future taxable income.

| | | | |
|---|---|---|---|
| **12. INVENTORIES** | **738** | 832 | 646 |
| Gross inventories | **821** | 953 | 757 |
| Write-down of inventories to net realisable value | **(83)** | (121) | (111) |

The increase in inventory since 31 March 2014 is mainly due to an increase in the mobile devices stock.

The decrease in write-down of inventories is mainly due to lower obsolescence and lower slow moving stock.

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **13. OTHER FINANCIAL ASSETS** | | | |
| **Non current other financial assets consist of:** | **56** | 76 | 74 |
| **Total other financial assets consist of:** | **690** | 1 143 | 261 |
| **Held-to-maturity** | | | |
| – Repurchase agreements | **500** | 910 | – |
| **At fair value through profit or loss** | | | |
| – Derivative instruments | **190** | 233 | 261 |
| Forward exchange contracts | **77** | 112 | 139 |
| Firm commitments | **1** | – | 4 |
| Cross currency swaps | **112** | 121 | 118 |
| **Less: Current portion of other financial assets** | **634** | 1 067 | 187 |
| **Held-to-maturity** | | | |
| – Repurchase agreements | **500** | 910 | – |
| **At fair value through profit or loss** | | | |
| – Derivative instruments | **134** | 157 | 187 |
| Forward exchange contracts | **77** | 112 | 139 |
| Firm commitments | **1** | – | 4 |
| Cross currency swaps | **56** | 45 | 44 |

**Repurchase agreements**
The Group manages a portfolio of repurchase agreements, with a view of generating additional investment income on the favourable interest rates and security provided on these instruments. The repurchase agreements are short-term, usually seven days and are held to maturity.

## 14. NET CASH AND CASH EQUIVALENTS

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| Cash disclosed as current assets | **3 912** | 1 191 | 1 842 |
| Cash and bank balances | **161** | 268 | 193 |
| Short-term deposits | **3 751** | 923 | 1 649 |
| Credit facilities utilised | **(6)** | (1) | (1) |
| **Net cash and cash equivalents** | **3 906** | 1 190 | 1 841 |

The increase in cash and cash equivalents is mainly due to the inflow of a loan of R1 billion (refer to note 16) together with lower expenditure on property, plant and equipment. The balance includes R2 663 million ring-fenced for the acquisition of Business Connexion once all the conditions are met.

## 15. 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.

The condensed consolidated interim 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 2014.

### 15.1 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 team 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.

### 15.2 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 476 million (30 September 2013: R5 148 million, 31 March 2014: R4 752 million) and a carrying amount of R5 010 million (30 September 2013: R4 334 million, 31 March 2014: R4 096 million) (refer to note 16).

| Type of financial instrument | Fair value at 30 September 2014 | Valuation technique | Significant inputs |
|---|---|---|---|
| Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends | R7 722 million | Undiscounted future estimated cash flows due to short-term maturities of these instruments | Probability of default |
| Derivatives | R59 million | Discounted cash flows | Yield curves, market interest rate and market foreign currency rate |
| Borrowings | R5 476 million | Discounted cash flows | Market interest rate and 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.

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.

### 15.3 Fair value hierarchy

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

The different levels have been defined as follows:

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

## 15. FINANCIAL RISK MANAGEMENT (continued)

### 15.3 Fair value hierarchy (continued)

The following table presents the fair value of the Group's assets and liabilities:

| | Hierarchy levels | Six months ended September 2014 Rm | Six months ended September 2013 Rm | Year ended March 2014 Rm |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Investment in Cell Captive Preference Shares | Level 1 | **2 887** | 2 607 | 2 755 |
| Forward exchange contracts | Level 2 | **77** | 112 | 139 |
| Firm commitments | Level 2 | **1** | – | 4 |
| Cross currency swaps | Level 2 | **112** | 121 | 118 |
| **Liabilities measured at fair value** | | | | |
| Interest rate swaps | Level 2 | **(1)** | (5) | – |
| Firm commitments | Level 2 | **(122)** | – | (37) |
| Forward exchange contracts | Level 2 | **(8)** | (23) | (61) |
| **Liabilities measured at amortised cost** | | | | |
| **Interest-bearing debt consisting of:** | | **5 476** | (5 148) | (4 752) |
| Quoted debt securities | Level 1 | **3 307** | (3 752) | (3 445) |
| Unquoted debt securities | Level 2 | **2 169** | (1 396) | (1 307) |

The fair value of the financial assets and financial liabilities are sensitive to exchange rates and interest rates movements as well as volatile markets. The Rand depreciated against major currencies during the period resulting in unrealised fair value gains.

## 16. INTEREST-BEARING DEBT

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **Non-current interest-bearing debt** | **3 398** | 3 841 | 3 775 |
| Local debt | **2 601** | 2 770 | 2 815 |
| Foreign debt | **199** | 396 | 307 |
| Finance leases | **598** | 675 | 653 |
| **Current portion of interest-bearing debt** | **1 612** | 493 | 321 |
| Local debt | **1 260** | 200 | – |
| Foreign debt | **253** | 224 | 236 |
| Finance leases | **99** | 69 | 85 |

**Repayments/refinancing**

The Group obtained long-term funding of R1 billion to diversify its debt maturity profile and to finance its activities during the reporting period.

The repayment of the current portion of interest-bearing debt of R1 513 million (nominal as at 30 September 2014) is expected to be repaid from available operational cash flow and/or the issue of new debt instruments.

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

## 17. PROVISIONS

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **Non-current portion of provisions** | **1 745** | 2 643 | 1 496 |
| Employee related | **1 692** | 2 323 | 1 388 |
| Non-employee related | **53** | 320 | 108 |
| **Current portion of provisions** | **2 086** | 2 177 | 2 328 |
| Employee related | **1 652** | 1 494 | 1 597 |
| Non-employee related | **434** | 683 | 731 |

The increase in non-current employee related provisions since 31 March 2014 is mainly due to the increase in the post-retirement medical aid provisions as a result of medical inflation. The decrease in non-current non-employee related provisions is as a result of certain provisions becoming payable in the next 12 months and therefore being moved to short term.

The increase in the current portion of employee related provisions is due to the voluntary severance, voluntary early retirement and retrenchment process. The decrease in the current portion of non-employee related provisions is 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.

## 18. COMMITMENTS

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2014 Rm |
|---|---|---|---|
| **Capital commitments authorised** | **3 290** | 3 470 | 5 055 |
| Commitments against authorised capital expenditure | **1 335** | 2 008 | 1 132 |
| Authorised capital expenditure not yet contracted | **1 955** | 1 462 | 3 923 |

Capital commitments comprise of commitments for property, plant and equipment and software included in intangible assets.

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

## 19. CONTINGENCIES

### Contingent liabilities

**Matters before ICASA**

***Phutuma Networks (Pty) Ltd (Phutuma)***

Phutuma filed a complaint against Telkom at ICASA's Complaints and Compliance Committee (the CCC) in February 2010. At a hearing in May 2014, it was Telkom's understanding that Phutuma withdrew its complaint against Telkom, and that the CCC intimated that it would recommend to ICASA that certain regulatory issues be addressed by ICASA. In June 2014, Telkom received a document titled Interim Ruling from the CCC. A further hearing was held at the CCC in September 2014. Both parties have made submissions and the CCC will now make its ruling.

***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 and the risk remains for similar referrals. The review application is in process.

## 19. CONTINGENCIES (continued)

### Contingent liabilities (continued)

#### Matters before ICASA (continued)

***Neotel/Telkom: 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.

#### High court

***Radio Surveillance Security Services (Pty) Ltd (RSSS)***

RSSS sued Telkom for R215 661 866 (incl VAT). Telkom is defending the claim and has filed a plea and counterclaim for R22 million. Preparation for trial is under way.

***Phutuma Networks (Pty) 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 absolution from the instance in Telkom's favour. The Supreme Court of Appeal (SCA) had initially dismissed Phutuma's application for leave to appeal in October 2014. On 4 November 2014, the SCA rescinded its order granted in October 2014. The application for leave to appeal will again be considered by the SCA.

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

Multi-Links Telecommunications (MLT), a previously wholly-owned subsidiary of Telkom in Nigeria, concluded a Super Dealer Agreement (SDA) with African Pre-paid Services (APS). APS ceded and assigned all of its rights and obligations in terms of the SDA to African Pre-paid Services Nigeria (APSN). APSN cancelled the SDA on the basis of an alleged repudiation by MLT of the agreement. APSN launched arbitration proceedings in South Africa against MLT claiming damages in the sum of USD481,199,101. MLT defended the matter and filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in MLT to HIP Oils Topco Limited (HIP Oils). In terms of an indemnity contained in the Sale and Purchase agreement between Telkom and HIP Oils, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and MLT. MLT has obtained a High Court order to stay the arbitration hearing pending the outcome of the damages action instituted by Telkom and MLT against Blue Label Telecoms, APSN and others.

#### 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 has undertaken to indemnify any actual or contingent liabilities, obligations or other indebtedness of any nature owed or owing to trade, financial and other creditors of MLT where such liability, obligation or other indebtedness was incurred and not disclosed to HIP Oils prior to the completion date.

#### Tax matters

Telkom received an assessment from SARS in respect of the 2010 year of assessment to which Telkom has objected.

The Group is regularly subject to an evaluation, by tax authorities, of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

### Contingent assets

#### Tax matters

As noted in the 2013 consolidated annual financial statements, the 2012 tax return was submitted and has since then been provisionally assessed. In 2014 a similar transaction arose, however, the 2014 tax return has not been submitted. Since the tax treatment of the loss arising in 2012 and 2014 is based on a specific set of circumstances and a complex legislative environment, the contingent asset will only be recognised once the matter has been resolved with SARS. The outcome of the SARS process, will determine the recognition of the tax refund of R854 million in relation to 2012, currently included in trade and other payables.

## 20. RELATED PARTIES

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2013 Rm |
|---|---|---|---|
| Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows: | | | |
| **With shareholders:** | | | |
| **Government of South Africa** | | | |
| *Related party balances* | | | |
| Trade receivables | **468** | 538 | 456 |
| *Related party transactions* | | | |
| Revenue | **(1 651)** | (1 562) | (3 307) |
| Individually significant revenue* | **(598)** | (653) | (1 322) |
| City of Cape Town | **(19)** | (37) | (45) |
| Department of Correctional Services | **(36)** | (47) | (90) |
| Department of Health: Gauteng | **(24)** | (25) | (51) |
| Department of Justice | **(47)** | (54) | (114) |
| South African National Defence Force | **(30)** | (26) | (72) |
| South African Police Services | **(274)** | (296) | (597) |
| South African Revenue Services | **(15)** | (24) | (38) |
| S.I.T.A. (Proprietary) Limited | **(102)** | (102) | (206) |
| South African Post Office | **(24)** | (22) | (52) |
| Department of Interior Affairs | **(27)** | (20) | (57) |
| Collectively significant revenue | **(1 053)** | (909) | (1 985) |
| At 30 September 2014, the Government of South Africa held 39.8% (March 2014: 39.8%) of Telkom's shares, and has the ability to exercise significant influence by virtue of their voting rights at the Annual General Meeting, and the Public Investment Corporation held 12.8% ( March 2014: 13.5%) of Telkom's shares. | | | |
| **With entities under common control:** | | | |
| **Major public entities** | | | |
| *Related party balances* | | | |
| Trade receivables | **62** | 36 | 35 |
| Trade payables | **(1)** | (2) | (1) |
| *Related party transactions* | | | |
| Revenue | **(124)** | (136) | (253) |
| Expenses | **123** | 113 | 250 |
| Individually significant expenses | **117** | 106 | 236 |
| South African Post Office | **41** | 47 | 89 |
| Eskom | **70** | 59 | 136 |
| South African Broadcasting Corporation | **6** | – | 11 |
| Collectively significant expenses | **7** | 7 | 14 |
| Rent received | **(26)** | (23) | (49) |
| Individually significant rent received: South African Post Office | **(23)** | (21) | (43) |
| Collectively significant rent received | **(3)** | (2) | (6) |

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

| | Reviewed Six months ended 30 September 2014 Rm | Reviewed Six months ended 30 September 2013 Rm | Audited Year ended 31 March 2013 Rm |
|---|---|---|---|
| **20. RELATED PARTIES (continued)** | | | |
| Rent paid | **14** | 14 | 29 |
| Individually significant rent paid: South African Post Office | **10** | 9 | 19 |
| Collectively significant rent paid | **4** | 5 | 10 |
| **Key management personnel compensation:** | | | |
| **(Including directors and prescribed officers' emoluments)** | | | |
| *Related party transactions* | | | |
| Short-term employee benefits | **76** | 70 | 190 |
| Post-employment benefits | **6** | 5 | 10 |
| Termination benefits | **3** | 2 | 2 |
| Equity compensation benefits | **13** | – | 6 |
| **Terms and conditions of transactions with related parties** | | | |

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

## 21. 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.

### 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.

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

Telkom had announced that it signed a heads of agreement with MTN South Africa to take over 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)

Telkom had announced its firm intention to make an offer regarding the possible acquisition of BCX. The Company has embarked on a strategy to improve performance and restore profitability.

Shareholders of BCX approved the acquisition by Telkom at an Ordinary Scheme Meeting held on 11 August 2014. Both parties are awaiting approval from various Competition Authorities and the Regulator.

## 21. SIGNIFICANT EVENTS (continued)

### Restructuring of the organisation

In April 2014, as part of the larger Telkom turnaround strategy, the Company began specific discussions with representatives from organised labour. These discussions focused on the initiation of an organisational restructuring process that would result in some headcount reduction.

The staff that has been affected by this organisational restructuring, has been limited to the management and specialist layers. Telkom engaged with labour unions on an ongoing basis from 4 May 2014 on all elements of the process. At the end of September, the Section 189 process was concluded, for the affected staff. Telkom has always sought to pursue any reasonable measure to retain qualified and experienced staff. To this end, Telkom has also informed all affected staff that they are eligible to apply for any roles that may become available through normal staff movement processes, such as resignations or transfers, during their notice month of October. This offer is not part of the Section 189 process, but is a separate action by the Company as a final attempt to place affected candidates.

The intention of the Telkom turnaround strategy is to secure the future commercial sustainability of the business. The sustainable success of this Company is largely dependent on both the attraction and retention of qualified, competent and experienced professionals. The organisational restructuring has not been driven by headcount reduction targets, but rather by business imperatives that will shape the long-term commercial sustainability of the Company.

## 22. SUBSEQUENT EVENTS

### Post-retirement medical aid for pensioners

Telkom made an offer to the pensioners to transfer the post-retirement medical aid liability obligation to pensioners who retired after 1994 and before 30 April 2013 to an insurer. The net curtailment and settlement will be quantified once the deal has been finalised.

### Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2014 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Notes