

Telkom SA Limited  
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TELKOM SA LIMITED GROUP INTERIM RESULTS  
for the six months ended September 30, 2009

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

All statements, other than statements of historical facts, including, among others, statements regarding our mobile 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 including but not limited to those risks identified in Telkom's most recent annual report which are available on Telkom's website at [www.telkom.co.za/ir](http://www.telkom.co.za/ir).

We caution you not to place undue reliance on these forward looking statements. All written and oral 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 to conform them to actual results or to changes in our expectations.

The reported results for the period are distorted by the accounting for the sale and unbundling of our 50% stake in Vodacom and related transactions, the sale of Telkom Media and the impairment of the goodwill of Multi-Links. Unless otherwise indicated, the discussion below is based on adjusted results, excluding the items above, and is based on continuing operations as reconciled under the financial performance section of this announcement.

#### GROUP SALIENT FEATURES FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2009

- Vodacom transaction accounts for profit of R40.4 billion.
- Impairment of Multi-Links goodwill of R2,148 million.
- Operating revenue up 4.0% to R18.7 billion.
- Headline earnings per share from continuing operations decreased by 37.9% to 242.2 cents.
- Basic earnings per share decreased 141.2% to a loss of 150.2 cents per share.
- Group EBITDA margin decreased to 27.3% from 32.3%.
- Total dividends paid out during the reporting period of R11.2 billion.
- Net debt reduced by R8.7 billion decreasing annualised net debt to EBITDA from 1.4 times to 0.8 times.
- Group restructuring into distinct profit centres 85% complete.
- New data centre operation business unit launched - branded Cybernest.
- 51.1% increase in Do broadband subscribers.

Group operating revenue from continuing operations increased 4.0% to R18.7 billion, while EBITDA decreased 12.2% to R5.1 billion. The Group EBITDA margin decreased to 27.3% as at September 30, 2009, compared to 32.3% at September 30, 2008, mainly due to higher operating expenditure of Telkom South Africa which decreased the Telkom South Africa EBITDA margin to 35.2% as at September 30, 2009 (September 30, 2008: 39.9%).

Headline earnings from continuing operations decreased by 37.9% to 242.2 cents per share as a result of increased operating expenditure in Telkom South Africa and the corporate centre, partially offset by higher revenue. Basic earnings per share decreased 141.2% at a loss of 150.2 cents per share for the six months ended September 30, 2009, compared to earnings of 364.5 cents per share at September 30, 2008. The reduced basic earnings per share can mainly be attributed to the impairment of the goodwill of Multi-Links.

Annualised return on assets before taxation decreased from 17.4% to 12.9% due to the lower operating profit and a lower asset base excluding cash balances.

## 1. OVERVIEW

Johannesburg, South Africa - November 23, 2009, Telkom SA Limited (JSE: TKG) today announced Group interim results for the six months ended September 30, 2009.

### Segment structure

The Telkom South Africa segment provides fixed-line access and voice services, fixed-mobile and data communications services through Telkom South Africa. The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria through our Multi-Links subsidiary. The other segment is split geographically between international and South Africa. Other international category provides internet services outside South Africa, through our Africa Online and MWEB Africa subsidiaries and management services through our Telkom Management Services Company. The Other South African category includes the Trudon Group, formerly known as TDS Directory Operations, and the Group's corporate centre.

Our 50% share of Vodacom's results, Telkom Media and Swiftnet's results are disclosed as discontinued operations in terms of IFRS5 in the Telkom Group's consolidated financial statements.

Statement by Reuben September, Chief Executive Officer:

"The impact of competition and the weaker economic environment are evident in the Telkom Group's financial results for the six months ended September 30, 2009. The negative effect of growing competition and fixed to mobile substitution is starkly highlighted in the 9.0% decrease in Telkom South Africa's traffic revenue. This continuing trend justifies the imperative for our Group to enter the mobile market and particularly the mobile data market. Our continued efforts to move traditional traffic revenues into annuity type products and data products exacerbates the decline. In addition, data revenue posted more modest revenue growth of 8.7% as a result of increased competition and pricing pressures in this segment of our business. Our Group operating expenditure grew 12.0% reflecting higher than inflationary increases as a result of higher payments to international operators, salary increases, provisioning for slow moving inventory and higher operating leases in Multi-Links. The restructuring of Telkom and optimisation of its balance sheet to create leaner, focused business units was expected to incur restructuring costs in the short term. On the positive side, the Group exhibited strong management of the capital expenditure programme and an extremely healthy net debt position with annualised net debt to EBITDA of 0.8 times.

Our strategy seeking to re-position the Telkom Group is imperative given the tough operating environment. Similar to the strategies

of other leading operators in the world, we are focusing on growing other revenue streams to compensate for the decline in fixed voice revenues. We are expanding into other geographic markets and into other domestic markets, for example our data centre operations and mobile strategy. We are improving our execution in current growth markets.

In addition, we are strongly focused on reducing our costs in order to protect our profits and we remain committed to a 10% reduction in operating expenses by the 2011/12 financial year. While control of discretionary expenditure is showing immediate reduction, other areas under focus require careful planning and execution to ensure long-term success. These areas include supplier negotiations, improved inventory management, IT costs, maintenance costs and synergies through mobile capabilities and data centre operations.

Telkom Renaissance, dealing with the remodelling, reorganisation, revitalisation and re-engineering of Telkom is gaining traction and we have achieved important milestones. The reorganisation of Telkom South Africa into new business units is 85% complete. Specific work streams are focused on business process engineering and cost efficiencies. The business plans for both the mobile strategy and data centre operations have been approved by the board of directors after extensive market research. Multi-Links remains a major concern, but is beginning to show slight improvements to its operating performance and the integration of Africa Online and MWEB Africa is proceeding well.

Despite the difficulties, the commitment of my team to positioning Telkom to aggressively compete in the South African and African markets is gaining momentum. Our data centre operation, branded Cybernest, was launched on November 19, 2009. This initiative is further evidence of our drive to diversify and grow our revenue streams and take costs out of our current operations. Free cash flow generation is critical to the valuation of Telkom and everything we are doing is aimed at this target. It is a long-term process requiring harsh reviews of our capital expenditure programme and business processes.

I am confident that the strength inherent in the fixed-line network and the business leadership and operations skills of our employees will allow us to offer our markets simple, quality, cost effective services that will be competitive in our markets."

## 2. OPERATIONAL DATA

	Six months ended September 30,		
	2008	2009	%
Telkom South Africa			
ADSL subscribers <sup>1</sup>	491,774	602,720	22.6
Calling plan subscribers	521,704	651,359	24.9
Closer subscribers	507,985	636,010	25.2
Supreme call subscribers	13,719	15,349	11.9
W-CDMA subscribers	–	8,744	–
Do Broadband subscribers	154,095	232,796	51.1
Fixed access lines ('000) <sup>1</sup>	4,504	4,398	(2.4)
Postpaid – PSTN	2,839	2,694	(5.1)
Postpaid – ISDN channels	772	785	1.7
Prepaid	754	797	5.7
Payphones	139	122	(12.2)
Fixed-line penetration rate (%)	9.3	8.9	(4.3)
Revenue per fixed access line (ZAR)	2,635	2,679	1.7
Total fixed-line traffic (millions of minutes)	12,709	11,785	(7.3)
Local	4,688	3,670	(21.7)
Long distance	1,870	1,656	(11.4)
Fixed-to-mobile	2,111	1,906	(9.7)
International outgoing	319	307	(3.8)
International VoIP	17	22	29.4
Subscription based calling plans	1,704	1,869	9.7
Interconnection	2,000	2,355	17.8
Domestic mobile	1,241	1,184	(4.6)
interconnection			
Domestic fixed	160	333	108.1
interconnection			
International interconnection	599	838	39.9
Managed data network sites	28,051	29,842	6.4
Internet all access subscribers <sup>2</sup>	395,088	445,334	12.7
Fixed-line employees	24,075	23,445	(2.6)
Fixed access lines per fixed-line employee	187	188	0.5
Movement in fixed-line employees			
Opening balance	24,879	23,520	(5.5)
Appointments	503	397	(21.1)
Employee losses	(1,307)	(472)	(63.9)
Workforce reductions	(4)	–	–
Natural attrition	(1,303)	(472)	(63.8)
Closing balance	24,075	23,445	(2.6)
Multi-Links			
Active subscribers	1,571,102	2,036,404	29.6
Employees <sup>3</sup>	1,006	1,060	5.4
Other International			
Africa Online subscribers	17,773	16,368	(7.9)
Africa Online employees <sup>4</sup>	357	307	(14.0)
MWEB Africa subscribers	–	22,137	–

MWEB Africa employees	-	345	-
Other South African			
Trudon employees	532	531	(0.2)

1. Excludes Telkom internal lines.

2. Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.

3. Employees have decreased 5.7% from 1,124 recorded at March 31, 2009.

4. Excluding UUNet joint venture partner's subscribers and employees in Kenya.

### 3. OPERATIONAL OVERVIEW

#### TELKOM SOUTH AFRICA

The South African ICT market is seeing a shift in activity to increased efficiencies and marginal economies of scale. Bandwidth aggregation and infrastructure-build initiatives are a reality and service availability proliferates. There are also definitive signs of product innovation from ICT providers across the board, leading to increased choice available to customers. These initiatives lead to customer migration to a wider range of service providers. Customers are more frequently using services of more than one provider. This means that retail customers are using services from a wider range of providers who can give them access to a wider range of services. Migration is evident in the broadband markets with mobile broadband being a significant driver. Also the virtual network product market is growing with a commensurate shift in voice and data market share. Competition is impacting Telkom's revenue generation and, as a result, Telkom is re-engineering its business into leaner, more flexible business units, developing new revenue streams through mobile services and data centre operations and creating opportunities for cost efficiencies. These initiatives take time and incur upfront costs.

We are confident that our initiatives will ensure Telkom is the wholesale provider of choice for operators in the market. Our retail business is focused on providing an independent, value focused service. We aim to provide sustainable and growing shareholder value.

#### Voice revenue

The continued competitive pressure in the voice market has seen declines in our traffic revenue streams. This is as a result of our drive to offer significant value through products, managed network services and virtual private networks which shifts traffic revenue into other revenue streams. The effect of fixed-to-mobile substitution and least cost routing is also clear, as is the need for us to develop a mobile service in order to win back traffic onto the Telkom network. We continue to focus on growing our annuity revenue streams through subscription based calling plans. Annuity revenues grew 6.1% to R3,816 million. Telkom Closer subscribers have increased 25.2% to 636,010 and Supreme call

subscribers have increased 11.9% to 15,349. The current line penetration rate for Closer packages is 47.8% up from 41.9% at March 31, 2009.

Telkom has dedicated programmes to stimulate prepaid and postpaid usage including the Waya Waya campaign, the Recharge campaign and the Bafana Bafana campaign. In addition, we are marketing the benefits of the Closer packages. In the enterprise market, Telkom continues to promote its discount plans for both voice products and customer premise equipment.

We continue to focus on reducing customer churn, increasing customer loyalty and promoting the value offered by fixed-line services through many initiatives such as continued enhancement to the Closer packages, free line installation to all of Telkom's ex customers, telemarketing and direct marketing.

#### Interconnection revenue

Interconnection revenue increased 52.5% to R1,458 million reflecting the increased volumes carried on mobile networks, significant tariff increases on interconnect traffic destined for Zimbabwe, the growth of Neotel, VANs and ISPs and Telkom carrying increased traffic from international operators into Africa. We have specifically targeted international hubbing revenues despite their lower margins as they add scale and bottom-line benefits.

Margins on foreign interconnection revenues have declined as a result of the strength of the Rand and timing delays in adjusting pricing in line with developments in foreign markets.

#### Mobile termination rate developments

On November 12, 2009 the Minister of Communications announced a reduction in the peak mobile interconnect rate from R125 cents to 89 cents. Off-peak mobile rates are unchanged at 77 cents. This comes into effect from February 2010 with MTN adopting it a month later. The final outcome of current negotiations regarding the glide path for mobile termination rates between ICASA and operators is difficult to predict. Telkom will pass the benefit of the cut in mobile termination rates directly to the consumer which will impact both Telkom's revenue line and payment to other operators' expenses line.

We may see a slight acceleration in fixed to mobile substitution in the consumer market and may also see an increase in fixed to mobile traffic as mobile calls become cheaper. However, the reduced rates do strengthen our position against least cost routing and we expect to begin winning traffic back.

#### Broadband revenue

ADSL subscribers increased 22.6% to 602,720 when compared to the September 30, 2008 reporting period. At March 31, 2009 ADSL subscribers totalled 548,015. Do Broadband subscribers have increased 51.1% to 232,796. At March 31, 2009 Do Broadband

subscribers totalled 188,540. Broadband penetration as a percentage of residential postpaid lines equals 17.5%, up from 15.4% at March 31, 2009.

Telkom continues to aggressively promote its broadband packages through focusing our marketing efforts on particular customer groupings and the up-selling of the higher end broadband packages which offer substantial value. We have also put in effort to promote entry-level ADSL packages with extremely competitive pricing. We continue to make every effort to increase the bandwidth available to our customers and are currently negotiating a triple play partnership in order to provide our customers with enhanced content. Speeds of 4 mbps are available to selective services. We have signed agreements with two partners for our gated community initiative, the benefits of which we expect to start showing in the 2010/11 financial year. We intend to provide gated communities with speeds up to 8 mbps.

#### Data revenue

Total data revenue increased 8.7% to R4,849 million despite significant price reductions. Data connectivity services revenue increased 2.8% to R2,476 million. Mobile leased line revenue increased 14.0% to R983 million and Internet access and related services increased 27.0% to R889 million. Managed data network services increased 5.4% to R468 million, which included an increase of 27.8% in satellite services and a 0.9% decrease in VPN services. VPN services decreased as a result of the September 30, 2008 total including a once-off sale of routers to a corporate client totalling R89 million. Managed network sites increased 6.4% to 29,842 sites.

Telkom is facing competition on price for traditional data services. We continue to maximise the benefit of our capacity and ability to provide quality and security. We are also offering innovative products and services using the intelligence of our next generation network. The scope and quality of our data services are unmatched. In addition, the scale of our global undersea cable system provides additional competitiveness.

We are focusing on differentiating our service through creating attractive, value propositions. Our differentiators include the reliability of our comprehensive service level agreements that are flexible and can be designed to match customer requirements. Other differentiators that we are working towards include: providing full communication and converged solutions that are clean and simple to understand.

In order to make these a reality we need to add mobility and data centre services to the array of services we offer. We need to invest in several areas before "simplicity" can become a reality for our customers.



## Cost management

Our target is to reduce operating expenditure by 10% by the 2011/12 financial year.

Telkom Renaissance and the associate reorganisation into customer focused business units have allowed us to improve profit and loss accountability throughout the Group. It is also allowing us to more easily identify potential cost savings. As expected, expenses increased in the short term as a result of the reorganisation of the business units, clean up of inventories and costs associated with increasing under sea cable capacity and provisioning for the World Cup 2010.

The areas of cost savings centre around reducing our product portfolio and terminating unprofitable product lines, renegotiating all maintenance and supply contracts, reducing IT spend and focusing on shorter term IT projects, retiring legacy systems. We have reopened discussions with labour regarding outsourcing in the IT arena. We have specific Renaissance work streams concentrating on service delivery remodelling, business process re-engineering and have identified the major cost saving opportunities within our wholesale and networks division. The roll-out of our wireless access network will enable us to provide connectivity in a more cost effective manner.

We have been optimising vacancies created through natural attrition and have been making use of some temporary staff in the short term. We have also been actively managing overtime and contractor spend in order to offset costs as far as possible.

As we restructured the company and pulled back on the capital expenditure programme during the six months under review, we could not immediately reduce staffing and contractor levels and therefore expensed certain labour costs which would otherwise have been capitalised. During the period our expenditure increased as a direct result of our restructuring, the pull back in capital expenditure programmes and the delay in the implementation of our mobile strategy pending detailed market studies.

Telkom SA has actively managed services rendered and operating leases by introducing efficiencies in all possible areas to ensure that the inflationary cost impact could be fully offset (specific focus on consultants, fleet costs and distribution commissions).

Write downs and provisions were required as a result of technology obsolete inventory and items classified as slow moving inventory as a result of the economic slow down. In addition, a contributing factor was that high value stock orders had already been placed in order to service the previously higher capital expenditure programme. A decision was made to provide against these stock items as the capital cost of completing the projects for which these items were ordered would outweigh the value of inventory losses.

## Telkom Mobile

Telkom is at an inflection point with growth in traditional fixed-line voice revenues declining. The majority of global fixed-line incumbents have discovered that a successful operation requires an integrated mobile business. We believe that there is a market opportunity in South Africa as mobile voice and especially mobile data are still experiencing growth. Telkom has a competitive advantage by virtue of its existing asset and customer base. The mobile business could also assist Telkom in addressing fixed-line cost challenges and will position Telkom more competitively in the market. A product range spanning both mobile and fixed value pools will help Telkom defend itself more effectively against competitors.

Telkom's mobile business plan was approved during the period under review. Information regarding our network build and go to market strategy cannot be disclosed due to competitive sensitivities.

We estimate that the capital expenditure required to implement mobility will be a maximum of R6 billion over five years.

We are negotiating innovative financing structures with our suppliers in order to potentially reduce our capital investment in favour of operating lease-type payments which include technology renewal. In addition, we are in the process of negotiating arrangements regarding co-location and sharing which may reduce our capital investment and enhance our speed to market. We are employing the latest technology combining both 2G and 3G composite technologies which significantly reduce inter-operability costs.

We have 8,744 existing W-CDMA subscribers who were provided with mobile data service and fixed look-alike products in those areas hard hit by copper theft.

## Cybernest - Our data centre operation

Telkom's move into the data centre operations business unit forms part of our drive to grow revenues. It is a natural progression for a telecommunication provider up the value-added IT services chain. Telkom is uniquely placed to enter the data centre market and offer significant value to our customers by utilising the strength of our underlying network, our large enterprise customer base and the operational skill set developed in providing data centre services to Telkom - the biggest user of data centre services in South Africa. We are a carrier neutral data centre capable of providing independent services to other telecommunications operators.

International demand for data centres exceeds supply by approximately 6:1. South Africa's requirements are also accelerating. Telkom's proven track record indicates that we have the required stability, reliability and flexibility to succeed in the data centre environment. Telkom manages more than 32,000

mailboxes, 700,000 emails per day and some 30,000 managed devices. We also manage over 4,000 servers and more than 1,460 operating systems and databases. We process approximately 9.7 million emails per day as part of our ISP services. We are ideally positioned in terms of size, volume, experience and skills.

Telkom formally launched its data centre operation, branded Cybernest, in Bellville, Cape Town on November 19, 2009. The current economic downturn is creating opportunities as firms look to cut costs. We are actively pursuing strategic alliances to bolster our product offering and will capitalise on the decreasing cost of bandwidth and the convergence opportunities provided by our next generation network and move into mobile services.

Having the data centre as an independent business unit should allow increased focus on reducing the costs associated with these facilities. We have also ensured that our facility complies with best in class "green" infrastructure and operating principles which will enhance the attractiveness of our service offering.

#### Multi-Links - Nigeria

The Nigerian Multi-Links operation started to show steady improvements although it remains our major challenge and we have impaired an additional R2,148 million of goodwill. The improvement is evidenced by the achievement of consecutive monthly revenue milestones, declining month on month operating expenditure costs and its 3G broadband equivalent product ('EVDO') growing strongly, while maintaining its monthly EBITDA margin improvements.

Trading conditions continue to be tough as a result of local economic factors and pricing pressures. The relative strength of the Rand reporting currency against the Nigerian Naira has adversely affected our reported results. A key focus area in Nigeria continues to be the provisioning of an extensive fibre network for future benefit and good progress has been made in this regard over the last six month period, albeit under a significantly reduced capital expenditure programme. Newly established distribution channels are still in their formative stage of development. In addition, in order to manage the high level of inventory we have continued to subsidise handsets through targeted promotions in selected geographic areas to increase capacity utilisation. In addition we have taken provisions against certain handset models with the intention of liquidating these items.

The monthly revenue growth has continued its upward trajectory having exceeded the 3 billion Naira level for the first time and has continued to do so for both August 2009 and September 2009. Revenue has continued to remain above this new level for the first month subsequently to the period under review. Second quarter revenues increased by 41% over the first quarter as various initiatives, including international carrier services, have come to fruition.

Active voice subscribers increased 30% to 2,036,404 from 1,571,102 recorded at September 30, 2008 and 1,863,131 recorded at March 31, 2009. ARPU has decreased to USD7 from USD13 at September 30, 2008 and USD12 at March 31, 2009 (excluding non-revenue generating subscribers). The medium-term target of USD10 ARPUs is still possible.

Data subscribers - EVDO subscribers - increased to 18,924 from 2,644, an increase of 615.7%, at March 31, 2009 and are generating USD30 ARPUs. EVDO revenues are now exceeding narrowband data revenues. Fixed data customers increased 24% to 454 for equivalent 2 megabits circuits representing four wholesale operators and five corporate clients.

Targeted promotions were introduced to revive inactive subscribers and stimulate on-net usage early in the financial year. Mobile data services via EVDO were re-launched at the beginning of the second quarter. A number of value-added services targeted for the corporate sector were also launched during this period. The marketing approach and internal structures were also re-structured to put emphasis on the inherent strength of the Telkom Group in the data services. To this effect, the Sales, Products, Service Management and Business Solutions were re-structured to create the necessary focus. International Carrier Services was also established as a separate division to aggressively pursue international voice revenue opportunities using Telkom Group's global relationships. A key focus is to ensure aggressive execution of the programme to increase penetration into the corporate and business markets via mobile and fixed data services.

The period under review must be categorised as a period of reviewing lessons of the past, setting the baseline and implementing plans for clear operational turn-around.

Operating expenses increased by 35.4% to 22,301 million Naira. Employee expenses increased to 1,138 million Naira as strategic staff were recruited. However, Multi-Links is currently undergoing a headcount rationalisation including outsourcing of non-core activities. This has seen the headcount being reduced from 1,124 at April 1, 2009 to 1,060 at period end, a 5.7% reduction. Additional rationalisation activities are still in progress.

Payments to other operators increased by 6.6% to 5,131 million Naira as a result of increased outgoing minutes. These additional minutes were primarily driven by the new revenue stream of international carrier services. This business is expected to open new revenue streams for Multi-Links.

Selling, general and administrative expenses increased 15.3% as a result of increased maintenance costs, marketing and expatriate fees. Handset subsidies totalled 2,208 million Naira with the average cost per unit equal to 4,891 Naira, including inventory

write-downs. The subsidy reflects revenue minus cost of sales and is a negative value. These subsidies reflect less about the operating business model and more about the need to drive down higher than normal levels of inventory. These inventory levels continue to reduce on a monthly basis with anticipated seasonal demand to further accelerate the reduction. Whilst we expect handset subsidies to be minimal in the 2010/11 financial year as most of the voice handsets would have been dealt with by the financial year ending March 31, 2010, there is still a risk of additional write downs if anticipated seasonal demand does not materialise.

Key issues were identified that hampered Multi-Links's customer acquisition drive, the most significant of which was the management of the dealers. Due to lack of both systems and staff, Multi-Links could not properly account and manage the performance of each dealer or the tracking of customer ongoing revenue generating potential. As a result, management effort was spent on dispute resolution and dealer boycott meetings to ensure an amenable relationship with our dealer partners. As part of an investment in improving the distribution system, a new dealer structure was put in place early in the financial year with the appointment of a single super-dealer. The total commission paid into the new distribution system increased 248%. During the first months of this agreement all outstanding disputes with dealers were also settled which accounts for the large increase in commission paid. The increased commission has as yet not translated to increased revenue as there were certain start up costs relating to the appointment of the super-dealer.

The super-dealer has expended effort in cleaning up the quality of sub dealers that Multi-Links intends to use going forward and agreeing on performance targets. In addition, the fact that Multi-Links now deals with one super-dealer for handsets, data terminals and recharge cards that are sold in the Nigerian market is system traceable until it is retired. This has assisted in strengthening the integrity of the pipeline to the end subscriber, thereby minimising risks surrounding equipment and revenue leakages going forward.

Operating leases increased by 150.5% to 2,290 million Naira as a result of the increased utilisation of leased infrastructure as opposed to owned infrastructure, specifically as it relates to cell sites. This translates to significant capital expenditure savings. Further savings to date have been realised from contract renegotiation with other benefits and other cost reductions realised from the management of staff costs.

Initiatives to reduce operational expenditure include the leasing of cell sites, outsourcing of diesel supply and reductions on property leases. A top priority is to speed up the deployment of capital work in progress by identifying those assets that can be

quickly commissioned. We continue to renegotiate all supplier contracts.

The EBITDA margin reported at September 30, 2008 was negative 19.8%. A negative 11.9% EBITDA margin was reported at March 31, 2009. Results to the six months ended September 30, 2009 produced a negative 20.0% EBITDA margin. However, the monthly trend of the EBITDA margin is on a positive trajectory, with the latest month EBITDA coming in at single digit negative territory.

Multi-Links reported an EBITDA loss of R164 million for the half year period ended September 30, 2009.

The balance sheet of Multi-Links is such that it is over-gearred and unable to raise debt and creditor financing. Accordingly Multi-Links is being recapitalized with preference share capital in order to enable the company to repay existing debt and negotiate third party financing.

We continue to review all options with regard to consolidation and/or any other opportunities in Nigeria to accelerate the turnaround of Multi-Links.

#### Africa Online and MWEB Africa

The integration of Africa Online and MWEB Africa is proceeding well. Full country reviews including local shareholders, regulatory authorities, supplier and business contracts, tax evaluations, sale and purchase agreements and restructuring plans are nearing completion. We look forward to completing this process so that the integrated management team can proceed with growing the business.

#### Guidance

Our target is to reduce operating expenditure by 10% by the 2011/12 financial year.

Capital expenditure for the Group is expected to range between 20% and 23% of revenue over the next financial year including the first year impact of our mobile investment.

The targeted ceiling net debt to EBITDA is aimed at a maximum of 1.4 times.

Targets in a transforming industry such as ours are inherently risky, particularly in later years and investors should not place undue reliance on such targets. Our ability to meet such targets is subject to a number of risks and uncertainties and there could be no assurance that we could meet such targets. See the special note regarding forward-looking statements.

#### 4. FINANCIAL PERFORMANCE

The Telkom Group believes that adjusted earnings more accurately reflect the Group's operational performance. Headline earnings are

adjusted to exclude the effects of the sale and unbundling of our 50% share in Vodacom, the changes to the Telkom Conditional Share Plan as a result of the Vodacom transaction, the profit on sale of Telkom Media and the impairment of the goodwill of Multi-Links. Unless otherwise indicated, the discussion below is based on adjusted results, excluding the items below, and is based on continuing operations.

The Nigerian operations reported EBITDA losses at similar levels to those of September 2008. Trading conditions remain tough as a result of local economic factors, pricing pressures, handset subsidies and newly established distribution channels. The newly appointed distribution agents are still at an early stage of establishing new distribution channels and average revenues per subscriber remained low in an intensely competitive market. The weaker Nigerian economy has placed increased pressure on consumer spending.

The impact of the items discussed above on Group earnings for the six month period is as follows:

Unusual item	Line item affected	Value
Profit on the sale of our 15% share in Vodacom	Other income	R18,535 million
Profit on the unbundling of our 35% share in Vodacom	Gain on distribution of assets	R25,688 million
Capital gains tax on the sale and unbundling	Taxation	R1,353 million
Secondary taxation on companies ('STC') on the special dividend relating to the sale of Vodacom	Taxation	R977 million
Reversal of the deferred tax asset relating to capital gains tax on the Vodacom sale	Taxation	R421 million
Compensation expense recognised in terms of IFRS2 relating to the amendment of the Telkom Conditional Share Plan	Employee expenses	R946 million
Impairment of goodwill of Multi-Links Nigeria	Depreciation, amortisation, impairments and write-offs	R2,148 million
STC on the special dividend declared	Taxation	R135 million
Fair value loss on the	Foreign exchange and	R166 million

Vodacom shares held	fair value movement	
Profit on disposal of	Other income	R68 million
Telkom Media		

The statement of comprehensive income for the six months period ended September 30, 2008 has been adjusted to remove the effects of elimination of our 50% share in Vodacom, the impairment of the Africa Online investment and the gain on the revaluation of the Multi-Links put option to enable year on year comparison.

# Reconciliation of adjusted group statement of comprehensive income

	Reported	Effects	Other
	September	of the	unusual
Continuing operations	2008	Vodacom	items
In ZAR millions		transaction	
Operating revenue	17,598	393	-
Other income	211	-	-
Operating expenses	13,805	771	(34)
Employee expenses	4,045		-
Payments to other operators	3,240	754	-
Selling, general and administrative expenses	2,742	14	-
Service fees	1,230	-	-
Operating leases	357	3	-
Depreciation, amortisation, impairments and write-offs	2,191	-	(34)
Results from operating activities	4,004	(378)	34
Gain on distribution of assets	-	-	-
Investment income	124	-	-
Finance charges and fair value movements	693	-	146
Interest	891	-	-
Foreign exchange and fair value movement	(198)	-	146
Profit before taxation	3,435	(378)	(112)
Taxation	1,065	-	-
Profit from continuing operations	2,370	(378)	(112)
EBITDA			
EBITDA margin (%)			
Closing rate at beginning of the period			
Closing rate at end of the period			
Average Naira/Rand exchange rate			



	Adjusted September 2008 (unaudited)	Reported September 2009	Effects of the Vodacom Transaction
Continuing operations In ZAR millions			
Operating revenue	17,991	18,706	-
Other income	211	18,811	(18,535)
Operating expenses	14,542	19,380	(946)
Employee expenses	4,045	5,341	(946)
Payments to other operators	3,994	4,269	-
Selling, general and administrative expenses	2,756	3,330	-
Service fees	1,230	1,340	-
Operating leases	360	474	-
Depreciation, amortisation, impairments and write-offs	2,157	4,626	-
Results from operating activities	3,660	18,137	(17,589)
Gain on distribution of assets	-	25,688	(25,688)
Investment income	124	280	-
Finance charges and fair value movements	839	793	(166)
Interest	891	748	-
Foreign exchange and fair value movement	(52)	45	(166)
Profit before taxation	2,945	43,312	(43,111)
Taxation	1,065	3,699	(2,751)
Profit from continuing operations	1,880	39,613	(40,360)
EBITDA	5,817		
EBITDA margin (%)	32.3		
Average Naira/Rand exchange rate	N15.286		
Closing rate at beginning of the period	N14.390		
Closing rate at end of the period	N14.197		

	Other unusual items	Adjusted September 2009 (unaudited)	
Continuing operations In ZAR millions			
Operating revenue	-	18,706	4.0
Other income	(68)	208	(1.4)
Operating expenses	(2,148)	16,286	12.0
Employee expenses	-	4,395	8.7
Payments to other operators	-	4,269	6.9
Selling, general and administrative expenses	-	3,330	20.8
Service fees	-	1,340	8.9

Operating leases	-	474	31.7
Depreciation, amortisation, impairments and write-offs	(2,148)	2,478	14.9
Results from operating activities	2,080	2,628	(28.2)
Gain on distribution of assets	-	-	-
Investment income	-	280	125.8
Finance charges and fair value movements	-	627	(25.3)
Interest	-	748	(16.0)
Foreign exchange and fair value movement	-	(121)	132.7
Profit before taxation	2,080	2,281	(22.5)
Taxation	(135)	813	(23.7)
Profit from continuing operations	2,215	1,468	(21.9)
EBITDA		5,106	(12.2)
EBITDA margin (%)		27.3	(15.5)
Average Naira/Rand exchange rate		N18.528	21.2
Closing rate at beginning of the period		N15.563	8.2
Closing rate at end of the period		N19.600	38.1

#### GROUP OPERATING REVENUE

	Six months ended September 30		
In ZAR millions	2008	2009	%
Telkom South Africa	16,554	17,026	2.9
Multi-Links	813	818	0.6
Other International	63	234	271.4
MWEB Africa	-	153	n/a
Africa Online	63	81	28.6
Other South African	600	660	10.0
Trudon	581	638	9.8
Corporate centre	19	22	15.8
Eliminations	(39)	(32)	(17.9)
Total	17,991	18,706	4.0

Group operating revenue increased by 4.0% to R18,706 million (September 30, 2008: R17,991 million) in the six months ended September 30, 2009. The increase is mainly due to higher revenue from Telkom South Africa and the inclusion of revenue of our newly acquired MWEB Africa subsidiary.

Multi-Links' operating revenue increased by 23.3% to 15,325 million Naira from September 2008. Voice revenue increased 16.8% to 14,125 million Naira with traffic revenue improving 2.5% to 8,744 million Naira, subscription and sales revenue decreasing

25.2% to 1,881 million Naira, interconnect revenue increasing 78.2% to 1,874 million Naira and the newly established hubbing revenue generating 1,626 million Naira. Multi-Links's increased focus on data services has resulted in revenues increasing by 261.4% to 1,200 million Naira.

The relative strength of our reporting currency against the Nigerian Naira has adversely affected the Rand revenue growth of the Nigerian operations at a Telkom group level.

#### TELKOM SOUTH AFRICA OPERATING REVENUE

In ZAR millions	Six months ended September 30		
	2008	2009	%
Subscriptions and connections	3,233	3,344	3.4
Traffic	7,833	7,126	(9.0)
Local	1,881	1,637	(13.0)
Long distance	1,048	923	(11.9)
Fixed-to-mobile	3,803	3,362	(11.6)
International outgoing	481	472	(1.9)
Subscription based calling plans	620	732	18.1
Interconnection	956	1,458	52.5
Mobile	445	604	35.7
Fixed	36	96	166.7
International	475	758	59.6
Data	4,459	4,849	8.7
Leased lines and other	3,597	3,866	7.5
Mobile leased facilities	862	983	14.0
Other	73	249	241.1
Total	16,554	17,026	2.9

Operating revenue from the Telkom South Africa segment increased by 2.9% to R17,026 million (September 30, 2008: R16,554 million) primarily due to higher interconnection revenue, growth in data revenues, an increase in revenue from subscriptions and connections and subscription based calling plans, partially offset by lower traffic revenue.

Subscription and connections revenue grew by 3.4% to R3,344 million (September 30, 2008: R3,233 million) largely as a result of increased line rental tariffs.

Traffic revenue decreased by 9.0% as a result of the increasing substitution of calls placed using mobile services rather than fixed-line services and the acceleration of broadband adoption and the resultant loss of internet dial-up minutes. This was partially offset by an increase in revenue from subscription based calling plans by 18.1% to R732 million primarily due to increased volumes as a result of a 24.9% increase in the number of subscribers to 651,359 (September 30, 2008: 521,704) in the six months ended September 30, 2009.

Interconnection revenue increased by 52.5% to R1,458 million (September 30, 2008: R956 million) largely as a result of an increase of 59.6% in international interconnection revenue, a 35.7% increase in mobile interconnection revenue and a significant increase in domestic fixed-line interconnection revenue. The increased interconnection revenue from international operators is mainly a result of higher volumes on switched hubbing due to increased volumes and a result of an agreement signed with an operator in the United States to transit traffic mostly to African destinations. The increase in mobile interconnection revenue was driven by price increases on traffic destined for Zimbabwe. Fixed interconnection revenue increased as a result of increased volumes by VANS, Neotel and Sentech.

Data revenue increased by 8.7% to R4,849 million (September 30, 2008: R4,459 million) mainly due to an increase in internet access and related services, higher revenue from mobile leased lines and a growing demand for data services, including ADSL.

Other revenue increased as a result of R153 million received from the Department of Communications for the provisioning of the telecommunications infrastructure for the FIFA World Cup. The corresponding cost of R153 million is included in selling, general and administrative expenses.

#### GROUP OTHER INCOME

In ZAR millions	Six months ended		
	September 30		
	2008	2009	%
Telkom South Africa	150	178	18.7
Multi-Links	3	2	(33.3)
Other South African	93	195	109.7
Trudon	29	27	(6.9)
Corporate centre	64	168	162.5
Eliminations	(35)	(167)	377.1
Total	211	208	(1.4)

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets as well as interest received on loans to subsidiaries. Adjusted group other income remained flat. The increase in other income in the corporate centre was due to higher interest received on the loans to Multi-Links, Africa Online and MWEB Africa, which is eliminated on consolidation.

## GROUP OPERATING EXPENSES

In ZAR millions	Six months ended		
	September 30		
	2008	2009	%
Employee expenses	4,045	4,395	8.7
Payments to other operators	3,994	4,269	6.9
Selling, general and administrative expenses	2,756	3,330	20.8
Service fees	1,230	1,340	8.9
Operating leases	360	474	31.7
Depreciation, amortisation, impairments and write-offs	2,157	2,478	14.9
Total	14,542	16,286	12.0

Group operating expenses increased by 12.0% to R16,286 million (September 30, 2008: R14,542 million) in the six months ended September 30, 2009, due to an increase in selling, general and administrative expenses, employee expenses, depreciation, payments to other operators and operating leases. The increases in employee expenses, payments to other operators and selling, general and administrative expenses are mainly attributable to Telkom South Africa, the increase in service fees is attributable to the corporate centre and the increase in operating leases to Multi-Links. Depreciation increased as a result of increases in Telkom South Africa as well as Multi-Links.

## OPERATING EXPENDITURE CONTRIBUTION PER SEGMENT

In ZAR millions	Six months ended		
	September 30		
	2008	2009	%
Telkom South Africa	11,978	13,342	11.4
Multi-Links	1,081	1,191	10.2
Other International	168	275	63.7
MWEB Africa	-	143	-
Africa Online	71	95	33.8
Telkom International	97	33	(66.0)
Telkom Management Services	-	4	-
Other South African	1,377	1,505	9.3
Trudon	321	350	9.0
Corporate centre	1,056	1,155	9.4
Eliminations	(62)	(27)	(56.5)
Total	14,542	16,286	12.0

The increase in group operating expenses was driven by an increase in the operating expenses of Telkom South Africa and the corporate centre as well as the inclusion of five months' operating expenses of our newly acquired MWEB Africa subsidiary. Corporate centre operating expenses increased as a result of higher consultant fees paid for the implementation of our strategy and reorganisation of the Group through Project Renaissance.

# TELKOM SOUTH AFRICA OPERATING EXPENSES

	Six months ended		
	September 30		
In ZAR millions	2008	2009	%
Employee expenses	3,294	3,595	9.1
Salaries and wages	2,987	3,393	13.6
Benefits	655	486	(25.8)
Employee related expenses capitalised	(348)	(284)	(18.4)
Payments to other network operators	3,663	3,929	7.3
Payment to mobile operators	2,807	2,524	(10.1)
Payment to international operators	726	1,273	75.3
Payment to fixed-line operators	130	132	1.5
Selling, general and administrative expenses	1,733	2,274	31.2
Materials and maintenance	1,021	1,206	18.1
Marketing	124	119	(4.0)
Bad debts	119	145	21.8
Other	469	804	71.4
Service fees	1,082	1,088	0.6
Property management	565	630	11.5
Consultants and security	517	458	(11.4)
Operating leases	325	326	0.3
Depreciation, amortisation, impairment and write-offs	1,881	2,130	13.2
Depreciation	1,579	1,787	13.2
Amortisation	241	310	28.6
Impairments and write-offs	61	33	(45.9)
Total	11,978	13,342	11.4

Telkom South Africa's operating expenses increased by 11.4% in the six months ended September 30, 2009, to R13,342 million (September 30, 2008: R11,978 million), primarily due to increased employee expenses, selling, general and administrative expenses, payments to other network operators and depreciation, amortisation, impairment and write-offs.

Employee expenses increased by 9.1% in the six months ended September 30, 2009 primarily due higher salaries and wages as a result of average annual salary increases of 7.5% as agreed with the unions as well as the one time adjustment to accelerate the elimination of disparities translating to an 11.2% average increase for the bargaining unit.

Payments to other network operators increased by 7.3% as a result of increased payments to international and fixed-line operators, partially offset by lower payments to mobile operators. Payments to international operators increased by 75.3% primarily due to the increase of volumes in switched hubbing and international outgoing, as well as higher settlement rates impacted by the mix of traffic destinations such as Zimbabwe. Payments to mobile

operators decreased by 10.1%, largely due to a 9.7% decrease in fixed-to-mobile traffic volumes.

Selling, general and administrative expenses increased by 31.2% primarily as a result of write downs and increased provisions of technology obsolete inventory and items classified as slow moving inventory as a result of the economic slow down. In addition, a contributing factor was that high value stock orders had already been placed in order to service the previously higher capital expenditure programme. A decision was made to provide against these stock items as the capital cost of completing the projects for which these items were ordered would outweigh the value of inventory losses. Materials and maintenance expenses were also higher during the period. From April 1, 2009, ICASA changed the base of calculation of licence fees from 0.1% of revenue from PSTS and VANS to 1.5% of gross profit, which resulted in a R32 million increase in the provision for the six months.

The 13.2% increase in the depreciation, amortisation, impairment and write-offs to R2,130 million (September 30, 2008: R1,881 million) was mainly as a result of higher depreciation due to the higher levels of investment in telecommunications network equipment and data processing equipment in recent years.

#### MULTI-LINKS OPERATING EXPENSES

In Naira millions	Six months ended		
	September 30		
	2008	2009	%
Employee expenses	558	1,138	103.9
Payments to other operators	4,813	5,131	6.6
Selling, general and administrative expenses	8,427	9,718	15.3
Service fees	167	169	1.2
Operating leases	914	2,290	150.5
Depreciation, amortisation, impairments and write-offs	1,593	3,855	142.0
Total	16,472	22,301	35.4

Employee expenses increased by 103.9% in the six months ended September 30, 2009 primarily due to the recruitment of new staff to fill strategic positions in the period under review and the realignment and restructuring of salaries. Staff levels have however been reduced from those recorded at March 31, 2009.

Selling, general and administrative expenses increased 15.3% as a result of increased maintenance costs, marketing and expatriate fees. Handset subsidies totalled 2,208 million Naira with the average cost per unit equal to 4,891 Naira, excluding inventory write-downs. These subsidies reflect less about the operating business model and more about the need to drive down higher than normal levels of inventory. These inventory levels continue to reduce on a monthly basis with anticipated seasonal demand to further accelerate the reduction. Whilst we expect handset

subsidies to be minimal in the 2010/11 financial year as most of the voice handsets would have been dealt with by the financial year ending March 31, 2009, there is still a risk of write-downs if anticipated seasonal demand does not materialise.

Operating leases increased significantly as a result of the increased utilisation of leased infrastructure as opposed to owned infrastructure, specifically relating to cell sites.

Depreciation, amortisation, impairments and write-offs increased significantly due to the high investment in IT assets to support the expansion program and the network roll out during the period.

#### INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 125.8% to R280 million (September 30, 2008: R124 million), largely as a result of increased short-term deposits.

#### 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 foreign exchange gains and losses on foreign currency denominated transactions and balances. Finance charges and fair value movements decreased by 25.3% to R627 million (September 30, 2008: R839 million) in the six months ended September 30, 2009, primarily due to a 16.0% decrease in interest expense to R748 million (September 30, 2008: R891 million) mainly as a result of the 53.2% decrease in Group's net debt to R7.7 billion (September 30, 2008: R16.4 billion) and lower interest rates. Net fair value and foreign exchange rate movements resulted in a gain of R121 million for the six months ended September 30, 2009 (September 30, 2008: R52 million). The increase in the gain was mainly attributable to a fair value gain on the mark to market valuation of investments held by our cell captive.

The balance sheet of Multi-Links is such that it is over-gearred and unable to raise debt and creditor financing. Accordingly Multi-Links is being recapitalised with preference share capital in order to enable the company to repay existing debt and negotiate third party financing.

From a Group perspective, Telkom's loans to Multi-Links are accounted for as part of the Group's net investment in a foreign operation. Exchange rate differences are therefore recognised in other comprehensive income and reclassified from equity to profit and loss in the event of a disposal of the net investment.

#### TAXATION

Consolidated tax expense from continuing operations decreased by 23.7% to R813 million (September 30, 2008: R1,065 million) in the six months ended September 30, 2009 due to lower profitability.



The consolidated effective tax rate for the six months ended September 30, 2009 was 35.6% (September 30, 2008:34.8%).

#### PROFIT FROM CONTINUING OPERATIONS

The following represents the respective company's contribution after eliminations to the consolidated profit from continuing operations.

In ZAR millions	Six months ended September 30		%
	2008	2009	
Telkom Company including Cell Captive	1,891	1,529	(19.1)
Multi-Links	(235)	(297)	(26.4)
MWEB Africa	-	5	-
Africa Online	(8)	(12)	(50.0)
Telkom Management Services	-	(4)	-
Trudon	232	247	6.5
Profit from continuing operations	1,880	1,468	(21.9)

The decrease in profit from continuing operations was mainly attributable to Telkom Company.

#### PROFIT FROM DISCONTINUED OPERATIONS

In ZAR millions	Six months ended September 30		%
	2008	2009	
Vodacom	1,513	-	-
Swiftnet	14	18	28.6
Telkom Media	(82)	106	229.3
Total	1,445	124	(91.4)

The profit from Telkom Media includes the reversal of the onerous lease liability.

#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's financial position remains strong. Net debt, after financial assets and liabilities, from continuing operations and excluding Vodacom at September 2008, decreased by 53.2% to R7,669 million (September 30, 2008: R16,404 million) resulting in an annualised net debt to EBITDA ratio of 0.8 times from 1.4 times at September 30, 2008. On September 30, 2009, the Group had cash balances of R3.1 billion (September 30, 2008: R279 million excluding Vodacom).

The proceeds retained from the Vodacom transaction contributed to the improvement. Telkom Company repaid R820 million of the revolving syndicated loan during the six months ended September 30, 2009. The Company issued commercial paper bills with a nominal value of R2,260 million for the six months ended September 30, 2009 and commercial paper bills with a nominal value of R7,319

million were repaid by September 30, 2009. These financing facilities remain available to Telkom.

#### FREE CASH FLOW

The Group's cash flow for the six month period include R20.6 billion proceeds received on the sale of our 15% stake in Vodacom, taxation paid relating to the Vodacom transaction and special dividend of R1.8 billion. Excluding the effects of the above, the group's free cash flow amounted to R611 million.

Dividends paid amounted to R11.2 billion which includes the R19.00 per share dividend relating to the Vodacom transaction and the special dividend of R2.60 per share.

#### GROUP CAPITAL EXPENDITURE

Group capital expenditure which includes spend on intangible assets, decreased by 39.4% to R2,755 million (September 30, 2008: R4,544 million) and represents 14.7% of Group revenue (September 30, 2008: 25.3%).

In ZAR millions	Six months ended		
	September 30		
	2008	2009	%
Telkom South Africa	2,721	1,924	(29.3)
Multi-Links	1,770	709	(59.9)
Other International	–	25	–
Africa Online	–	21	–
Telkom International	–	4	–
Other South African	53	97	83.0
Trudon	30	28	(6.7)
Corporate centre	23	69	200.0
Total	4,544	2,755	(39.4)

The decrease in capital expenditure was driven by a decrease in the capital expenditure of Multi-Links and Telkom South Africa.

## TELKOM SOUTH AFRICA CAPITAL EXPENDITURE

In ZAR millions	Six months ended		
	September 30		
	2008	2009	%
Baseline	1,512	1,158	(23.4)
Revenue generating	9	1	(88.9)
Network evolution	607	390	(35.7)
Sustainment	39	16	(59.0)
Effectiveness and efficiency	400	193	(51.8)
Support	154	153	(0.6)
Regulatory and other		13	-
Total	2,721	1,924	(29.3)

Telkom South Africa's capital expenditure, which includes spending on intangible assets, decreased by 29.3% to R1,924 million (September 30, 2008: R2,721 million) and represents 11.3% of Telkom South Africa's revenue (September 30, 2008: 16.4%). Baseline capital expenditure of R1,158 million (September 30, 2008: R1,512 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and business areas. The lower expenditure for the period can be attributed to a more measured approach to the rollout of infrastructure to meet short-term demand and revenue generating services. The continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network as well as the initiation of the fixed-wireless roll-out contributed to the network evolution and sustainment capital expenditure of R406 million (September 30, 2008: R646 million).

Telkom continues to focus on its operations support system investment with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care, hardware technology upgrades on the billing platform and performance and service management and property optimisation. During the six months ended September 30, 2009, R193 million (September 30, 2008: R400 million) was spent on the implementation of several systems.

## 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 Company's registered office.

Condensed consolidated interim statement of comprehensive income  
for the six months ended September 30, 2009

		Restated* March 31 2009 Rm	Restated* September 2008 Rm	Reviewed September 2009 Rm
	Note			
Continuing operations				
Total revenue	3	36,433	17,922	19,169
Operating revenue		35,940	17,598	18,706
Other income	20	343	211	18,811
Operating expenses		29,537	13,805	19,380
Employee expenses		7,987	4,045	5,341
Payments to other operators		6,919	3,240	4,269
Selling, general and administrative expenses		5,772	2,742	3,330
Service fees		2,756	1,230	1,340
Operating leases		823	357	474
Depreciation, amortisation, impairment and write-offs	4	5,280	2,191	4,626
Results from operating activities		6,746	4,004	18,137
Investment income		181	124	280
Gain on distribution of non-cash asset	20	–	–	25,688
Finance charges and fair value movements		2,843	693	793
Interest		1,732	891	748
Foreign exchange and fair value movement loss/(gain)		1,111	(198)	45
Profit before taxation		4,084	3,435	43,312
Taxation	5	1,769	1,065	3,699
Profit from continuing operations		2,315	2,370	39,613
Profit from discontinued operations		2,181	1,445	124
Profit for the year/period		4,496	3,815	39,737
Other comprehensive income				
Exchange differences on translating foreign operations	6	30	84	(1,587)
Exchange differences realised		–	–	(189)
Available-for-sale financial assets	6	(8)	–	8
Defined benefit plan actuarial (losses)/gains	6	(1,824)	(1,694)	732
Defined benefit plan	6	941	924	(722)

asset limitations				
Income tax relating to components of other comprehensive income	6	244	212	323
Other comprehensive income for the year/period (net of taxation)		(617)	(474)	(1,435)
Total comprehensive income		3,879	3,341	38,302
Profit attributable to:				
Owners of Telkom		4,419	3,752	39,661
Non-controlling interest		77	63	76
Profit for the year/period		4,496	3,815	39,737
Total comprehensive income attributable to:				
Owners of Telkom		3,804	3,284	38,226
Non-controlling interest		75	57	76
Total comprehensive income for the year/period		3,879	3,341	38,302
Total operations				
Basic earnings per share (cents)	7	882.6	749.8	7,882.0
Diluted earnings per share (cents)	7	868.5	741.8	7,865.5
Dividend per share (cents)	7	660.0	660.0	375.0
Continuing operations				
Basic earnings per share (cents)	7	457.4	469.2	7,857.3
Diluted earnings per share (cents)	7	449.9	464.2	7,841.2

\* The amounts have been restated for the effect of the discontinued operations and disposal groups held for sale as well as the change in accounting policy for the defined benefit plan, refer to note 2.

Condensed consolidated interim statement of financial position  
at September 30, 2009

		Restated March 31 2009 Rm	Restated September 30 2008 Rm	Reviewed September 30 2009 Rm
	Note			
ASSETS				
Non-current assets		51,010	60,225	47,477
Property, plant and equipment	9	41,418	49,024	41,086
Intangible assets	9	7,232	8,456	4,602
Deferred taxation	10	756	688	84
Other non-current assets		1,604	2,057	1,705
Current assets		11,287	12,449	13,888
Inventories	11	1,974	1,755	1,938
Income tax receivable		91	100	1
Trade and other receivables		5,980	9,164	6,731
Cash and cash equivalents		1,931	705	3,134
Other current assets		1,311	725	2,084
Assets of disposal groups classified as held for sale		23,482	53	77
Total assets		85,779	72,727	61,442
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent		34,642	31,983	32,335
Share capital		5,208	5,208	5,208
Treasury shares	12	(1,517)	(1,522)	(1,170)
Share-based compensation reserve	13	1,076	938	1,852
Non-distributable reserves		1,758	1,342	528
Retained earnings		27,241	26,017	25,917
Reserves of disposal groups classified as held for sale		876	-	-
Non-controlling interests		853	578	321
Total equity		35,495	32,561	32,656
Non-current liabilities		16,959	17,391	14,057
Interest-bearing debt	14	10,653	10,692	7,950
Deferred taxation	10	1,204	1,418	938
Other non-current liabilities		5,102	5,281	5,169
Current liabilities		17,452	22,715	14,714
Trade and other payables		5,538	8,117	5,313
Shareholders for dividend		23	24	36
Current portion of interest-bearing debt	14	7,622	6,767	4,430

Income tax payable	50	475	881
Credit facilities utilised	127	1,882	162
Other current liabilities	4,092	5,450	3,892
Liabilities of disposal groups classified as held for sale	15,873	60	15
Total liabilities	50,284	40,166	28,786
Total equity and liabilities	85,779	72,727	61,442

Condensed consolidated interim statement of changes in equity  
for the six months ended September 30, 2009

		Restated March 31 2009 Rm	Restated September 30 2008 Rm	Reviewed September 30 2009 Rm
	Note			
Balance at April 1		33,337	33,337	35,495
Attributable to owners of Telkom		32,815	32,815	34,642
Non-controlling interests		522	522	853
Change in accounting policy		(1,226)	(1,226)	-
Restated opening balance		32,111	32,111	35,495
Total comprehensive income for the year/period		3,879	3,341	38,302
Profit for the year/period		4,496	3,815	39,737
Other comprehensive income		(617)	(474)	(1,435)
Exchange differences on translating foreign operations		24	81	(1,261)
Exchange differences realised		-	-	(189)
Available-for-sale investment		(8)	-	8
Net defined benefit plan losses		(633)	(555)	7
Dividend declared		(3,339)	(3,332)	(41,711)
Increase in share-based compensation reserve	14	554	411	1,123
Acquisition of subsidiaries		667	-	-
Put option		661	-	-
Reserves derecognised on disposal of Vodacom		-	-	(553)
Reversal of at		-	30	-

acquisition contingent liability			
Broad-based black economic empowerment transaction in Vodacom	962	-	-
Balance at March 31/September 30	35,495	32,561	32,656
Attributable to owners of Telkom	34,642	31,983	32,335
Non-controlling interests	853	578	321

Condensed consolidated interim statement of cash flow  
for the six months ended September 30, 2009

	Audited March 31 2009 Rm	Reviewed September 30 2008 Rm	Reviewed September 30 2009 Rm
Cash flows from operating activities	11,432	3,033	(9,211)
Cash receipts from customers	61,302	29,710	17,814
Cash paid to suppliers and employees	(40,908)	(21,360)	(13,693)
Cash generated from operations	20,394	8,350	4,121
Interest received	485	299	280
Finance charges paid	(2,164)	(337)	(313)
Taxation paid	(3,947)	(1,951)	(2,067)
Cash generated from operations before dividend paid	14,768	6,361	2,021
Dividend paid	(3,336)	(3,328)	(11,232)
Cash flows from investing activities	(17,005)	(5,262)	17,400
Proceeds on disposal of property, plant and equipment and intangible assets	43	23	30
Proceeds on disposal of investment	-	-	20,599
Additions to property, plant and equipment and intangible assets	(13,191)	(5,131)	(3,044)
Acquisition of subsidiaries and minorities	(3,778)	-	(185)
Additions to other investments	(79)	(154)	-
Cash flows from financing activities	7,093	1,254	(6,997)
Loans raised	18,168	10,105	2,710
Loans repaid	(10,212)	(9,127)	(8,503)
Finance lease capital repaid	(136)	(14)	(329)
(Increase)/decrease in net financial assets	(727)	290	(875)
Net increase/(decrease) in cash and cash equivalents	1,520	(975)	1,192



Net cash and cash equivalents at beginning of year*	(208)	(208)	1,780
Effect of foreign exchange rate differences	(30)	6	-
Net cash and cash equivalents at end of year/period	1,282	(1,177)	2,972
* Net cash and cash equivalent as previously reported			1,282
Cash and cash equivalents in disposal groups			522
Adjusted cash and cash equivalents at the beginning of the year			1,804
Cash and cash equivalents in disposal groups			(24)
Cash and cash equivalents			1,780

Notes to the condensed consolidated interim financial statements for the six months ended September 30, 2009

#### 1. CORPORATE INFORMATION

Telkom SA 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 and its subsidiaries ('the Group') is to supply telecommunication, broadcasting, multimedia, technology, mobile communication, information and other related information technology services in South Africa and certain other African countries.

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

##### Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited and the South African Companies Act, 1973.

The condensed consolidated interim financial statements are prepared on the historical cost basis, with the exception of certain financial instruments and share-based payments which are measured at grant date 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 March 31, 2009.

The preparation of 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 policies

Except as described below, the accounting policies applied by the Group in the interim financial statements are consistent with those applied in the previous financial year.

#### IFRS3 Business combinations

The Group has early adopted IFRS3 Business Combinations (revised) and IAS27 Consolidated and Separate Financial Statements (revised) for business combinations occurring in the financial reporting period starting April 1, 2009. All business combinations occurring on or after April 1, 2009 were accounted for by applying the acquisition method as disclosed in Note 15.

The Group measures goodwill at the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

The consideration transferred includes the fair value of the assets transferred, the liabilities incurred by the Group to the previous owners of the acquiree and equity interest issued by the Group. Consideration transferred also includes any contingent consideration at fair value.

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

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation which arises as a result of a past event, and its fair value can be measured reliably.

The change in accounting policy was applied prospectively and had no impact on earnings per share.

#### IAS27 Consolidated and Separate Financial Statements

The Group has adopted IAS27 (revised) for the acquisition of non-controlling interests occurring in the financial period starting April 1, 2009. In terms of the new accounting policy, acquisitions of non-controlling interest are accounted for as transaction with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously goodwill was recognised arising on the acquisition of non-controlling interest in the subsidiary, and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the exchange.

The change in accounting policy was applied prospectively and had no impact on earnings per share.

#### IFRS8 Operating Segments

As of April 1, 2009, the Group determines and presents operating segments based on the information that is internally provided to the Executive Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS8 Operating Segments. The impact is disclosed in note 18.

The Executive Committee assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax ('EBIT'). This measurement basis excludes the effects of non-operating expenditure from the operating segments, such as restructuring costs, legal expenses and impairments. Other information provided to them is measured in a manner consistent with that in the financial statements.

#### IAS1 Presentation of Financial statements

IAS1 (revised) introduces a statement of comprehensive income, previously the income statement, with two optional formats and refers to the balance sheet and cash flow statement by different names: the 'statement of financial position' and 'statement of cash flows', respectively. The Group has elected to present the statement of comprehensive income using the single statement approach.

The Group presents all owner changes in equity under the consolidated statement of changes in equity. All non-owner changes in equity are presented in the statement of comprehensive income under other comprehensive income.

The presentation of comparatives information has been changed in order to comply with the new revised standard.

There is no impact on earnings per share since the standard focuses on presentation issues.

#### IAS19 Employee Benefits

As of April 1, 2009, the Group changed its accounting policy on defined benefits by adopting the option available under IAS 19 Employee Benefits, paragraph 93A. Under this option, actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. The Group believes that recognising actuarial gains and losses in other comprehensive income results in better disclosure in the statement of financial position.

The impact of the change in accounting policy has been retrospectively applied in accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors. The financial quantification of this change is disclosed below.

	Balance as previously reported Rm	Employee benefits Rm	Balance as restated Rm
Change in accounting policy September 30, 2008			
Statement of Comprehensive Income			
Employee costs	4,228	(183)	4,045
Taxation	1,010	55	1,065
Other comprehensive income			
Defined benefit plan actuarial gains and losses	-	1,694	1,694
Asset limitation	-	(924)	(924)
Tax effect on defined benefit plan actuarial gains and losses	-	(474)	(474)
Tax effect on asset limitation	-	259	259
Statement of Financial Position			
Equity			
Restated retained earnings	27,670	(1,653)	26,017
Non-current liabilities			
Provisions	1,846	2,294	4,140
Deferred tax liability	2,060	(642)	1,418
March 31, 2009			
Statement of Comprehensive Income			
Employee costs	8,345	(358)	7,987
Taxation	1,660	109	1,769
Other comprehensive income			
Defined benefit plan actuarial losses	-	1,824	1,824
Asset limitation	-	(941)	(941)
Tax effect on defined benefit plan actuarial losses	-	(513)	(513)
Tax effect on asset limitation	-	263	263
Statement of Financial Position			
Equity			
Restated retained earnings	28,852	(1,611)	27,241
Non-current liabilities			
Provisions	1,875	2,230	4,105
Deferred tax liability	1,823	(619)	1,204

#### IFRIC17 Distributions of Non-Cash Assets to Owners

IFRIC17 provides guidance on when and how a liability for certain distributions of non-cash assets to owners, acting in their capacity as owners, are recognised and measured, and how to account for settlement of that liability.

The Group has early adopted IFRIC17 as well as specific paragraphs of IFRS5 as amended by IFRIC17. The amendments specify that a non-current asset or disposal group held for distribution to owners of

the entity shall be accounted for in accordance with the provisions of the amended IFRS5.

The Vodacom 35% interest unbundling transaction was accounted for in accordance with the requirements of the new interpretation IFRIC17 and had a material impact on the Group financial statements as disclosed in note 20.

#### Circular 3/2009 Headline Earnings

Circular 3/2009 Headline Earnings was issued by the South African Institute of Chartered Accountants ('SAICA') and is effective for financial periods (interim and/or annual periods) ending on or after August 31, 2009.

Circular 3/2009 supercedes Circular 8/2007, as it updates the latter with the amendments and revisions to International Financial Reporting Standards ('IFRS') issued between June 2007 and April 2009. The only changes to Circular 8/2007 are some of the detailed rules in Section C for amendments and revisions to specific IFRSs, as well as the new terminology brought in by IAS1 Presentation of Financial Statements.

The following new standards, amendments to standards and interpretations which are mandatory for financial periods beginning January 1, 2009 do not have an impact on the Group:  
IFRS1 and IAS27 (amendment) Cost of an Investment on First Time Adoption

IFRS2 (amendment) Vesting Conditions

IFRS7 (amendment) Improving disclosures about financial instruments

IAS1 (revised) Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation

IAS16 (amendment) Property, Plant and Equipment - Recoverable amount

IAS16/IAS7 (amendment) Property, Plant and Equipment - Sale of assets held for rental

IAS19 (amendment) Employee Benefits

IAS20 (amendment) Government Grants

IAS23 (amendment) Borrowing Costs

IAS28/IAS32/IFRS7 (amendment) Investments in Associates - Consequential amendments arising from amendments to IFRS3

IAS28 (amendment) Investment in Associates - Impairment testing

IAS31/IAS32/IFRS7 (amendment) Interest in Joint Ventures - Consequential amendments arising from amendments to IFRS3

IAS32/IAS1 (amendment) Puttable Financial Instruments and Obligations Arising on Liquidation

IAS39 (amendment) Financial Instruments: Recognition and Measurement

IFRIC13 Customer Loyalty Programmes

IFRIC15 Agreements for the Construction of Real Estate

IFRIC16 Hedges of a Net Investment in a Foreign Operation

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
3. TOTAL REVENUE	36,433	17,922	19,169
Operating revenue	35,940	17,598	18,706
Other income (excluding profit on disposal of property, plant and equipment and investments)	312	200	183
Investment income	181	124	280

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
4. DEPRECIATION, AMORTISATION, IMPAIRMENT AND WRITE-OFFS	5,280	2,191	4,626
Depreciation of property, plant and equipment	3,733	1,800	2,085
Amortisation of intangible assets	724	269	359
Impairment of property, plant and equipment and intangible assets	501	35	2,148
Write-offs of property, plant and equipment and intangible assets	322	87	34

The impairment charge of R2,148 million for September 2009 relates to the goodwill impairment of Multi-Links.

5. TAXATION	1,769	1,065	3,699
South African normal company taxation	1,767	917	2,067
Deferred taxation	(164)	(15)	721
Secondary Taxation on Companies ('STC')	164	163	911
Foreign taxation	2	-	-

Included in the current period's normal company taxation and deferred taxation expense is capital gains tax of R1,345 million and the reversal of R421 million relating to the deferred taxation asset on the investments which were held for sale.

STC is provided for at a rate of 10% on the amount by which dividends declared by Telkom exceeds dividends received.

Included in the STC current period expense is the impact of the Vodacom transaction dividend.

6. TAXATION EFFECTS OF OTHER  
COMPREHENSIVE INCOME

Tax effects relating to each  
component of other comprehensive  
income

Exchange differences on translating foreign operations	30	84	(1,587)
Tax effect of exchange differences on translating foreign operations	(6)	(3)	326
Net foreign currency translation differences for foreign operations	24	81	(1,261)
Exchange differences realised	–	–	(189)
Tax effect of exchange differences realised	–	–	–
Net exchange differences realised	–	–	(189)
Available-for-sale financial assets	(8)	–	8
Tax effect of available-for-sale financial assets	–	–	–
Net available-for-sale financial assets	(8)	–	8
Defined benefit plan actuarial (losses)/gains	(1,824)	(1,694)	732
Tax effect of defined benefit plan actuarial balance	513	474	(205)
Net defined benefit plan actuarial (losses)/gains	(1,311)	(1,220)	527
Defined benefit plan asset limitations	941	924	(722)
Tax effect of defined benefit plan asset limitations	(263)	(259)	202
Net defined benefit plan asset limitations	678	665	(520)
Other comprehensive income for the year/period before tax	(861)	(686)	(1,758)
Tax effect of other comprehensive income for the year/period	244	212	323
Other comprehensive income for the year/period net of tax	(617)	(474)	(1,435)

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
7. EARNINGS AND DIVIDEND PER SHARE			
Total operations			
Basic earnings per share (cents)	882.6	749.8	7,882.0
Diluted earnings per share (cents)	868.5	741.8	7,865.5
Headline earnings per share (cents)	1,044.3	771.2	(139.1)
Diluted headline earnings per share (cents)	1,027.7	763.0	(138.8)
Continuing operations			
Basic earnings per share (cents)	457.4	469.2	7,857.3
Diluted earnings per share (cents)	449.9	464.2	7,841.2
Basic headline earnings per share (cents)	606.7	488.2	(163.8)
Diluted headline earnings per share (cents)	597.1	483.0	(163.4)
Reconciliation of weighted average □number of ordinary shares:			
Ordinary shares in issue	520,784,186	520,784,186	520,783,900
Weighted average number of shares bought back	(27)	–	–
Weighted average number of treasury shares	(20,083,621)	(20,408,368)	(17,596,506)
Weighted average number of shares outstanding	500,700,538	500,375,818	503,187,394
Reconciliation of diluted weighted average number of ordinary shares:			
Weighted average number of shares outstanding	500,700,538	500,375,818	503,187,394
Expected future vesting of shares	8,082,103	5,398,009	1,031,110
Diluted weighted average number of shares outstanding	508,782,641	505,773,827	504,218,504
Total operations			
Reconciliation between earnings □and headline earnings:			
Profit attributable to equity holders of Telkom	4,419	3,752	39,661
Adjustments:			
Profit on disposal of	–	–	(18,605)



investment			
Profit on disposal of property, plant and equipment and intangible assets	(25)	(7)	(24)
Impairment of property, plant and equipment and intangible assets	557	45	2,148
Write-offs of property, plant and equipment	322	87	34
Gain on distribution of non-cash asset	-	-	(25,688)
Tax effects	(44)	(18)	1,774
Headline earnings	5,229	3,859	(700)
Continuing operations			
Reconciliation between earnings and □headline earnings:			
Profit from continuing operations	2,315	2,370	39,613
Non-controlling interest	(26)	(22)	(76)
Earnings as reported	2,289	2,348	39,537
Adjustments:			
Profit on disposal of investment	-	-	(18,605)
Profit on disposal of property, plant and equipment and intangible assets	(32)	(11)	(24)
Impairment of property, plant and equipment and intangible assets	501	34	2,148
Write-offs of property, plant and equipment	322	87	34
Gain on distribution of non-cash asset	-	-	(25,688)
Tax effects	(42)	(15)	1,774
Headline earnings	3,038	2,443	(824)
Discontinued operations			
Reconciliation between earnings and □headline earnings:			
Profit from discontinued operations	2,181	1,445	124
Non-controlling interest	(51)	(41)	-
Earnings as reported	2,130	1,404	124
Adjustments:			
Profit on disposal of property, plant and equipment and intangible assets	7	4	-
Impairment of property, plant and equipment and	56	11	-

intangible assets			
Tax effects	(2)	(3)	-
Headline earnings	2,191	1,416	124
Dividend per share	660.0	660.0	375.0
(cents)			

The calculation of dividend per share is based on dividends of R1,894 million (September 30, 2008: R3,306 million; March 31, 2009: R3,306 million) and 505,008,190 (September 30, 2008: 500,941,029; March 31, 2009: 500,941,029) number of ordinary shares outstanding on the date of dividend declaration.

The reduction in the number of shares represents the number of treasury shares held on date of payment.

Vodacom dividend	-	-	7,750.0
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The Vodacom dividend consisted of a once off cash dividend of 1,900.0 cents per share totalling R9,740 million and a 35% unbundling share valued at 5,850.0 cents per share with a total value of R29,990 million.

8. NET ASSET VALUE PER SHARE (cents)	6,914.7	6,391.8	6,402.9
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The calculation of net asset value per share is based on net assets of R32,335 million (September 30, 2008: R31,983 million; March 31, 2009: R34,642 million) and 505,008,190 (September 30, 2008: 500,375,818; March 31, 2009: 500,993,664) number of ordinary shares outstanding at period end.

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
9. CAPITAL EXPENDITURE INCURRED			
Property, plant and equipment	8,725	5,585	2,616
Intangible assets (including business combinations)	2,215	587	687

A major portion of this capital expenditure relates to the expansion of existing networks to provide capacity for growth in services with focus on the Next Generation Network technologies.

Included in the additions of intangible assets for the current period is an amount of R548 million recognised as a result of the acquisition of MWEB Africa Limited and MWEB Namibia (Proprietary) Limited.

10. DEFERRED TAXATION	(448)	(730)	(854)
Deferred tax assets	756	688	84
Deferred tax liabilities	(1,204)	(1,418)	(938)
Unutilised Secondary Taxation on Companies (‘STC’) credits	2,730	1,603	29

The decrease in the deferred tax asset is due to a reversal of a previously recognised asset relating to the Vodacom transaction.

The deferred taxation asset also includes STC credits on past dividends received that are available to be utilised against dividends declared.

11. INVENTORIES	1,974	1,755	1,938
Gross inventories	2,165	2,007	2,232
Write-down of inventories to net realisable value	(191)	(252)	(294)

Inventory levels have increased due to the roll out of the Next Generation Network. The write-down of inventory has increased due to stock obsolescence.

12. TREASURY SHARES	(1,517)	(1,522)	(1,170)
At September 30, 2009 7,632,154 (September 30, 2008: 8,994,097; March 31, 2009: 11,646,680) and 8,143,556 (September 30, 2008: 10,849,058; March 31, 2009: 10,849,058) ordinary shares in Telkom, with a fair value of R330 million (September 30, 2008: R945 million; March 31, 2009: R1,229 million) and R352 million (September 30, 2008: R1,140 million; March 31, 2009: R859 million)			

are held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, respectively.

The shares held by Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited are reserved for issue in terms of the Telkom Conditional Share Plan ('TCSP').

The reduction in the number of treasury shares is due to 4,014,526 (September 30, 2008: 1,551,963; March 31, 2009: 1,551,963) shares that vested in terms of the TCSP during the six months ended September 30, 2009.

### 13. SHARE-BASED COMPENSATION RESERVE

This reserve represents the cumulative grant date fair value of the equity-settled share-based payment transactions recognised in employee expenses during the vesting period of the equity instruments granted to employees in terms of the Telkom Conditional Share Plan.

No consideration is payable on the shares issued to employees, but performance criteria will have to be met in order for the granted shares to vest. The ultimate number of shares that will vest may differ based on certain individual and Telkom performance conditions being met. The related compensation expense is recognised over the vesting period of the shares granted, commencing on the grant date.

The following table illustrates the movement within the Share-based compensation reserve:

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
Balance at beginning of year/period	643	643	1,076
Net increase in equity	433	295	776
Employee cost*	554	411	1,123
Vesting and transfer of shares	(121)	(116)	(347)
Balance at end of year/period	1,076	938	1,852

\* The increase in employee costs for September 30, 2009 is due to the modification of the Telkom Conditional Share Plan.

The principal assumptions used in calculating the expected number of shares that will vest are as follows:

Employee turnover (%)	9	5	9
Meeting specified performance criteria - all remaining vesting (%)	75	100	100

At September 30, 2009 the estimated total compensation expense to be recognised over the vesting period was R1,658 million (September 30, 2008: R2,151 million; March 31, 2009: R1,824 million), of which R177 million (September 30, 2008: R411 million; March 31, 2009: R554 million) was recognised in employee expenses for the six months ended September 30, 2009.

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
14. INTEREST-BEARING DEBT			
Non-current portion of interest-bearing debt	10,653	10,692	7,950
Local debt	9,114	8,419	6,831
Foreign debt	589	746	184
Finance leases	950	1,527	935
Current portion of interest-bearing debt	7,622	6,767	4,430
Local debt	7,546	5,684	4,393
Foreign debt	40	970	-
Finance leases	36	113	37
Movements in borrowings for the period are as follows:			

#### Repayments/financing

Telkom repaid R820 million of the syndicated loan during the current interim period. Commercial Paper Bills with a nominal value of R2,260 million were issued and Commercial Paper□Debt with a nominal value of R7,319 million was repaid during the interim period ended September 30, 2009.

The R4,430 million nominal value of the current portion of interest-bearing debt as at September, 30 2009 is expected to be repaid/refinanced from cash flow from operations and the issue of new debt instruments upon maturity.

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

#### 15. ACQUISITION OF SUBSIDIARIES

MWEB Africa Limited and MWEB Namibia (Proprietary) Limited

Telkom International (Proprietary) Limited, a wholly owned subsidiary of Telkom SA Limited, acquired 100% of MWEB Africa Limited from Multichoice Africa Limited, and 75% of MWEB Namibia (Proprietary) Limited from MIH Holdings Limited effective April 21, 2009. Both Multichoice Africa Limited and MIH Holdings Limited are members of the Naspers Limited Group.

The acquisition of MWEB is part of the Group's strategy of growing its broadband and □solidifying its market position through

acquisitions.

The goodwill from the acquisition is partially attributable to the following:

- Certain licences that could not be valued separately from the MWEB group, but contribute significantly to goodwill as the MWEB business would cease to exist without the licence rights.
- The skills and technical talent of the acquired business's workforce, and the synergies expected to be achieved from integrating the acquiree into the Group's existing internet service provision.

The goodwill is also attributable to the MWEB Group's position as Africa's largest satellite-based internet service provider in Sub-Saharan Africa.

The purchase price paid by Telkom International was USD55 million determined as follows:

- USD1.5 million for the Namibian Cash Generating Unit
- USD53.5 million for the Mauritian Cash Generating Unit

The fair value of the assets and liabilities acquired were determined as follows:

Net assets acquired	94
Fair value of intangible assets	83
Deferred tax on intangible assets	(20)
Fair value of net assets	157
Goodwill on acquisition	28
Purchase price for net asset fair value	185
Acquisition of loans receivable	312
Purchase price	497

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
16. COMMITMENTS			
Capital commitments			
Capital commitments authorised	7,928	14,600	5,532
Commitments against authorised capital expenditure	1,393	7,015	1,210
Authorised capital expenditure not yet contracted	6,535	7,585	4,322
Capital commitments comprise commitments for property, plant and equipment and software included in intangible			

assets.

The decrease in capital commitments for September 30, 2009 is due to the exclusion of Vodacom (September 2008: R3,987 million).

#### 17. CONTINGENCIES

Supplier dispute

Supplier dispute liability included in current portion of provisions	664	603	565*
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\*USD75 million

There is a dispute between Telkom and Telcordia arising from the development and installation of an integrated end to end customer assurance and activation system, which was supposed to have been supplied by Telcordia.

The agreement was terminated in the 2001 financial year and the dispute was taken to arbitration where Telcordia was seeking approximately US\$130 million plus interest at a rate of 15.5% per year for money outstanding and damages.

A number of hearings took place during the 2008 and 2009 financial year without success.

Telkom has in the interim also requested a referral to the independent third party expert of the technical issues arising from the systems integration amendment. A hearing surrounding the technical issues has been held during the period November 3 - 21, 2008 where the independent expert released his report and recommended that some aspects of Telcordia's claim be reduced. The arbitrator has not made a final decision in this regard.

The parties have agreed to argue the issue of systems integration at an experts-only hearing before the independent expert, which hearing commenced on October 2, 2009. The final evidentiary hearing will be held over a two week period in January 2010 and February 2010.

A provision has been recognised based on management's best estimate of the probable payments in this regard.

Competition Commission

Independent Cellular Service Providers' Association of South Africa ('ICSPA')

In 2002, the Independent Cellular Service Providers' Association of South Africa ('ICSPA') filed a complaint against Telkom at the

Competition Commission (the 'CC') in terms of the Competition Act, alleging that Telkom had entered into contracts with big corporations, providing large discounts with the effect of discouraging the corporates from using the "premicell" device installed by their members. ICSPA also alleged various contraventions of the Competition Act by Telkom.

Telkom provided the CC with certain information requested, and also referred the CC to Telkom's High Court application in respect of utilisation of the "premicell" device. The CC declined to refer the matter to the Competition Tribunal (the 'CT'). The complainant itself then referred the matter to the CT on September 18, 2003 but has done nothing since, notwithstanding the fact that Telkom filed its answering affidavit on November 28, 2003.

The South African Value Added Network Services ('SAVA') Telkom's application for review against the CC and the CT in the High Court was successful and the decision of the CC to refer the SAVA Main Complaint to the CT, was set aside.

On July 3, 2008 the CC filed an application for leave to appeal the decision of the High Court on the basis that the judge erred on the issue of bias as well as his finding that issues surrounding the extension of time to investigate the issues constitutes a ground for review.

Telkom then filed an application for leave to cross-appeal on July 11, 2008. The main basis of Telkom's cross-appeal is that Telkom believes that the judge erred in failing to make a decision as to whether ICASA or the CC and CT should deal with this type of complaint.

The application for leave to appeal as well as the application for leave to cross-appeal were granted by the Pretoria High Court on October 9, 2008. The appeal and cross-appeal will be argued before the Supreme Court of Appeal on November 2, 2009. The judgement was reserved including the issue whether ICASA or the CC and CT should deal with this type of complaint.

If the Supreme Court of Appeals find that the CT does have jurisdiction to hear the SAVA main complaint and the CT finds that Telkom committed a prohibited practice as set out in the Competition Act, the CT may impose a maximum administrative penalty of 10% of Telkom's annual turnover in the RSA and its exports from the RSA during Telkom's preceding financial year. However, Telkom has been advised by external legal counsel that the CT has to date not imposed the maximum penalty on any offender.

Omnilink

Omnilink alleged that Telkom was abusing its dominance by discriminating in its price for Diginet services as against those charged to VANS and the price charged to customers who apply for a



Telkom IVPN solution. The CC conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the CT for adjudication. This matter is currently being dealt with together with the SAVA matter as discussed above.

Orion/Telkom (Standard Bank and Edcon): Competition Tribunal  
In April 2003, Orion filed a complaint against Telkom, Standard Bank and Edcon at the CC concerning Telkom offering discounts on public switched telecommunication services to corporate customers. The CC completed its investigation and decided that there was no prima facie evidence of any contravention of the Competition Act by Telkom. However, in terms of section 51 of the Competition Act, a party may also refer a matter to the CT. Orion, simultaneously with filing its complaint at the CC, filed an application with CT, for an interim order interdicting and restraining Telkom from offering reduced rates to Orion's corporate customers.

Telkom has not yet filed its answering affidavit in the main complaint before the CT and it appears as if Orion is not actively pursuing this matter any further.

#### Cape Chamber of Commerce

The Cape Chamber of Commerce laid a complaint at the CC due to Telkom's refusal to offer HomeDSL to business customers. Telkom replied to the CC on November 3, 2005. Telkom also met with the CC for an informal discussion and provided them with certain information. Due to the nature of Telkom's ADSL product offerings since August 2006, Telkom requested the CC on November 15, 2006 to finalise the matter since the activity complained of has been addressed. There has been no further activity on this matter.

#### ValueCard

A complaint was lodged at the CC regarding the Telkom Closer Package. ValueCard, as a small business, wants to receive the Telkom Closer Package which is only available for residential customers. The complaint was served on Telkom on March 19, 2008. Telkom is still awaiting investigation of this complaint by the CC.

#### Competition Commission referrals

The CC served a notice of motion on Telkom on October 26, 2009, in which it referred the complaints by ISPA, MWEB and IS, Verizon, MWEB, and IS respectively, to the CT.

In the notice of motion the CC requests an order against Telkom in the following terms:

1. Declaring that over the complaint period (2005 - 2007):
  - Telkom charged excessive prices to first tier ISPs for high bandwidth national leased lines (namely leased lines with bandwidth above 2 Mbps);
  - Telkom charged excessive prices to first tier ISPs for international private leased lines ('IPLCs');

- Telkom set its prices for Diginet lines, high bandwidth leased lines and IP Connect as charged to other first-tier ISPs (or, in the case of Diginet access lines, to end customers using the IP networks of such first tier ISPs) "at levels which, in relation to the prices charged by Telkom for the same services to its own retail and wholesale customers acquiring bundled Diginet or ADSL access and IP network services from Telkom, made it impossible for such other ISPs to compete □cost-effectively with Telkom" (this essentially relates to Telkom's VPN Supreme product);

2. Interdicting Telkom from continuing with the conduct referred to in paragraph 1 above;

3. In respect of certain of the contraventions above, an order directing Telkom to pay a penalty equal to 10% of its turnover for the financial year ended March 31, 2009;

4. An order in terms of which Telkom would be discouraged from perpetuating the conduct referred to in paragraph 1 above, by having the CT direct Telkom to provide the CC on an annual basis with such data and information as is necessary to enable the CC to assess whether Telkom is charging prices for the services mentioned in paragraph 1 above such that it prevents other ISPs from competing cost-effectively with Telkom. The form and nature of such data is to be agreed to between Telkom and the CC or, in the event that no agreement can be reached within two months of an order by the CT, in a form directed by the CT.

In respect of the order requested from the CT directing Telkom to pay a penalty equal to "10% of Telkom's turnover for the financial year ended March 31, 2009", we have been advised by external legal counsel that the CT has not to date imposed the maximum penalty of 10% on any offender.

External legal counsel has further confirmed that, in terms of the Competition Act, the CT must consider a number of factors before deciding to impose the full 10% penalty. These factors include issues such as whether the guilty party is a repeat offender, the extent to which the party has co-operated with the CC and the CT, the nature, duration, gravity and extent of the contravention, etc.

Telkom has commenced preparations for opposing the referral.

Negative working capital ratio

At each of the interim financial periods ended September 30, 2009 and 2008 and the year ended March 31, 2009 the Company had a negative working capital ratio. A negative working capital ratio arises when current liabilities are greater than current assets. Current liabilities are intended to be financed from operating cash flows, new borrowings and borrowings available under existing credit facilities.

## 18. SEGMENT INFORMATION

As of the beginning of the year the Group changed the reporting of its segment information to be in line with IFRS8 Segment Reporting. Previously the segments were fixed-line, mobile and other. The new reporting segments are business units that are separately managed.

The Group consists of three segments.

The Telkom SA segment provides fixed-line access, fixed-mobile and data communications services through Telkom South Africa.

The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria.

Other International provides internet services outside South Africa, through Africa Online and MWEB Africa subsidiaries and management services through Telkom Management Services Company.

Other South Africa includes Trudon Group, formerly known as TDS Directory Operations, and the Group's corporate centre.

	March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
Business Segment			
Consolidated operating revenue	35,940	17,598	18,706
Telkom South Africa	33,642	16,554	17,026
Multi-Links	1,900	813	818
Other	1,299	663	894
International	194	63	234
South Africa	1,105	600	660
Elimination of intersegmental revenue	(901)	(432)	(32)
Consolidated operating profit	7,247	4,038	2,628
Telkom South Africa	9,220	4,726	3,862
Multi-Links	(522)	(265)	(371)
Other	(1,833)	(789)	(691)
International	(178)	(105)	(41)
South Africa	(1,655)	(684)	(650)
Elimination of intersegmental transactions	382	366	(172)
Reconciliation			
Adjusted EBIT for reportable segments	7,247	4,038	2,628
Profit on disposal of investment	-	-	18,603
Compensation expense	-	-	(946)
Impairment of goodwill	(501)	(34)	(2,148)
Operating profit	6,746	4,004	18,137
Investment income	181	124	280
Gain on distribution of non-cash asset	-	-	25,688

Finance charges and fair value movement	(2,843)	(693)	(793)
Profit before taxation and discontinued operations	4,084	3,435	43,312

March 31 2009 Rm	September 30 2008 Rm	September 30 2009 Rm
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#### 19. RELATED PARTIES

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

With shareholders:

Government

Trade receivables	386	358	302
Revenue	(2,767)	(1,385)	(1,360)

With entities under common control:

Major public entities

Trade receivables	52	48	85
Trade payables	(3)	(26)	(6)

The outstanding balances are unsecured and will be settled in cash in the ordinary course of business

Revenue	(446)	(214)	(165)
Expenses	212	64	106
Rent received	(20)	(10)	(11)
Rent paid	19	11	11

## 20. SIGNIFICANT EVENTS

### Disposal of Vodacom Group (Proprietary) Limited

Telkom disposed of its interest in Vodacom by selling 15% to Vodafone Group Plc ('Vodafone') and unbundling the remaining 35% to existing shareholders of Telkom.

Telkom sold 15% of its entire share capital to Vodafone Group Plc ('Vodafone') for R22,500 million less the attributable net debt of Vodacom as at September 30, 2008.

Telkom agreed to distribute 50% of the after tax proceeds from the sale transaction to Telkom shareholders by way of a special dividend, which amounted to R9,740 million.

The carrying amount of the net asset value at disposal date was R6,825 million. This resulted in a gain of R18,535 million being recognised in Other income.

The remaining 35% was distributed to the existing shareholders of Telkom and accounted for in terms of IFRC17, Distribution of Non-Cash Assets to Owners. The fair value was calculated with reference to the Vodacom listing price at May 18, 2009. A gain on distribution was recognised in the statement of comprehensive income of R25,688 million.

The impact of the shareholder approval on the amendment of the Telkom Conditional Share Plan is an expense of R946 million.

## 21. SUBSEQUENT EVENTS

### Change of Chairman

Mrs Shirley Lue Arnold retired as a non-executive director and Chairman of Telkom on conclusion of her three year contract on November 1, 2009.

Mrs Arnold presided over a number of strategic and organisational changes, including the Vodacom transaction, the African expansion and the more recent group restructure. Telkom is extremely grateful to Mrs Arnold and wishes to thank and acknowledge her for her leadership, dedication, contribution and service to the Telkom Group.

Mr Jeff Molobela was appointed as a non-executive director (for a three year period) and as Chairman (for a 1 year period) with effect from November 1, 2009.

### Other matters

The directors are not aware of any other matter or circumstance since the period ended September 30, 2009 and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

For more information please visit our website: [www.telkom.co.za/ir](http://www.telkom.co.za/ir)

23 November 2009

Sponsor: UBS South Africa (Pty) Ltd