

# GROUP INTERIM RESULTS

for the six months ended September 30, 2008

# Freedom to Compete

Telkom SA Limited  
(Registration number 1991/005476/06)  
JSE and NYSE share code: TKG ISIN: ZAE000044897



## **Special note regarding forward-looking statements**

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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 within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended.

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", "envise", "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 are those risks identified in Item 3. "Key Information – Risk Factors" of Telkom's most recent annual report on Form 20F filed with the US Securities and Exchange Commission and its other filings and submissions with the SEC which are available on Telkom's website at [www.telkom.co.za/ir](http://www.telkom.co.za/ir), including, but not limited to, any changes to our mobile strategy and Vodacom holdings and our ability to successfully implement such strategy and organisational changes thereto, increased competition in the South African fixed-line, mobile and data communications markets; our ability to implement our strategy of transforming from basic voice and data connectivity to fully converged solutions, developments in the regulatory environment; continued mobile growth and reductions in Vodacom's and Telkom's net interconnect margins; Telkom's and Vodacom's ability to expand their operations and make investments and acquisitions in other African countries and the general economic, political, social and legal conditions in South Africa and in other countries where Telkom and Vodacom invest; our ability to improve and maintain our management information and other systems; our ability to attract and retain key personnel and partners; our inability to appoint a majority of Vodacom's directors and the consensus approval rights at Vodacom may limit our flexibility and ability to implement our preferred strategies; Vodacom's continued payment of dividends or distributions to us; our negative working capital; changes in technology and delays in the implementation of new technologies; our ability to reduce theft, vandalism, network and payphone fraud and lost revenue to non-licensed operators; the amount of damages Telkom is ultimately required to pay to Telcordia Technologies Incorporated; the outcome of regulatory, legal and arbitration proceedings, including tariff approvals, and the outcome of Telkom's hearings before the Competition Commission and others; any requirements that we unbundle the local loop, our ability to negotiate favourable terms, rates and conditions for the provision of interconnection services and facilities leasing services or if ICASA finds that we or Vodacom have significant market power or otherwise imposes unfavourable terms and conditions on us; our ability to implement and recover the substantial capital and operational costs associated with carrier preselection, number portability and the monitoring, interception and customer registration requirements contained in the South African Regulation of Interception of Communications and Provisions of Communication-Related Information Act and the impact of these requirements on our business; Telkom's ability to comply with the South African Public Finance Management Act and South African Public Audit Act and the impact of the Municipal Property Rates Act; fluctuations in the value of the Rand and inflation rates; the impact of unemployment, poverty, crime, HIV infection, labour laws and labour relations, exchange control restrictions and power outages in South Africa; and other matters not yet known to us or not currently considered material by us.

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 annual report, either to conform them to actual results or to changes in our expectations.

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

Telkom SA Limited is listed on the JSE Limited and the New York Stock Exchange. Information may be accessed on Reuters under the symbols TKG.J and TKG.N and on Bloomberg under the symbol TKG.JH.

## **Index**

|  |    |
|--|----|
| 1. Overview  | 2  |
| 2. Operational overview                                | 7  |
| 3. Group performance                                   | 13 |
| 4. Group balance sheet                                 | 14 |
| 5. Group cash flow                                     | 15 |
| 6. Group capital expenditure                           | 15 |
| 7. Segment performance                                 | 17 |
| 8. Employees   | 23 |
| 9. Condensed consolidated interim financial statements | 25 |
| 10. Supplementary information                          | 59 |
| 11. Definitions  | 60 |

## **1. Overview**

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Johannesburg, South Africa — November 17, 2008, Telkom SA Limited (JSE and NYSE: TKG) today announced reviewed Group results for the six months ended September 30, 2008.

### **GROUP FINANCIAL KEY PERFORMANCE AREAS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2008**

- Operating revenue up 9.8% to R29.9 billion
- Group EBITDA decreased by 2.8% to R10.0 billion.
- Group EBITDA margin decreased from 37.7% to 33.4%.
- Operating profit decreased by 9.3% to R6.7 billion.
- Net debt to EBITDA increased to 2.0 times from 1.7 times at September 30, 2007.
- Cash generated from operations increased by 0.5% to R8.3 billion.
- Headline earnings per share increased by 0.4% to 745.2 cents per share.

### **Statement by Reuben September, Chief Executive Officer:**

“Despite the difficult market conditions the Telkom Group delivered a pleasing 9.8% growth in revenue to R29,884 million. Vodacom once again delivered a strong performance with revenue increasing 14.0% to R26 billion and customers increasing 13.1% to 35.7 million. We are proud of the fixed-line’s revenue growth of 2.8% to R16,565 million. The fixed-line has become a preferred provider in the data market as a result of superior quality and speed is evident in the strong growth in data revenues. Data revenues increased 12.2% to R4,459 million.

The need for the repositioning of the fixed-line in today’s extremely competitive environment is evident in the continuing decline in our traditional voice revenues. Traffic revenues decreased 3.0% to R7,833 million. The fixed-line’s strength in the data market and need to combat fixed-mobile substitution led to the Board recommending to shareholders on November 6, 2008 the sale of 15% of Telkom’s stake in Vodacom to the Vodafone Group and the further unbundling of the remaining 35% stake in Vodacom to Telkom shareholders. The consideration for the 15% stake in Vodacom is R22.5 billion less 15% of Vodacom’s net debt at September 30, 2008 being R1.55 billion. Shareholders are required to approve the sale to Vodafone, the unbundling of the remaining 35% and Telkom’s retention of 50% of the proceeds with the remainder being distributed to Telkom shareholders through a special dividend.

I am excited about Telkom’s repositioning within the market. Our strength is our network, our corporate customer relations and our data solutions and we intend to utilise the proceeds to leverage this strength for the benefit of all shareholders. Our key focus areas are fixed-mobile convergence, data and content services and geographic expansion. We intend to accelerate the expansion of our network including the Next Generation Network, selectively build a mobile network and explore acquisitive opportunities. The ability to pull traffic back on to the fixed-line’s network through mobile service offerings and leverage the NGN for full convergence and high value add data services will enhance Telkom’s core defend and grow strategy.

The next couple of years will see exciting changes for Telkom and our ability to provide premium services to our customers. We remain committed to improving services to our customers and generating returns for our shareholders. This will require substantial investment in our network and dedication from Telkom’s employees. We are firmly focused on becoming a leading Information, Communication and Technology service provider in Africa.”

## FINANCIAL PERFORMANCE

Group operating revenue increased 9.8% to R29.9 billion, while operating profit decreased by 9.3% to R6.7 billion. The Group EBITDA margin decreased to 33.4% as at September 30, 2008, compared to 37.7% at September 30, 2007, mainly due to higher fixed-line operating expenditure which decreased the fixed-line EBITDA margin by 17.0% to 31.7% as at September 30, 2008 (September 30, 2007: 38.2%). The EBITDA margin for the mobile segment remained flat at 33.3%.

Headline earnings per share increased by 0.4% to 745.2 cents per share and basic earnings per share remained flat at 723.9 cents per share for the six months ended September 30, 2008, compared to 724.3 cents per share at September 30, 2007. The reduced earnings can be attributed to a decrease in operating profit due to a 16.9% increase in operating expenses partially offset by a lower taxation expense.

Cash flows from operating activities increased by 344.1% to R3,033 million, cash flow utilised in investing activities decreased by 25.1% to R5,262 million and cash flows from financing activities decreased from R4,520 million to R1,254 million during the six months ended September 30, 2008.

## SUMMARY GROUP FINANCIAL RESULTS

| In ZAR millions                                       | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2008 |               | %      |
|---|---------------------------------|---|---------------|--------|
|   |                                 | 2007                                      | 2008          |        |
| Operating revenue                                     | 56,271                          | 27,227                                    | <b>29,884</b> | 9.8    |
| Operating profit                                      | 14,619                          | 7,364                                     | <b>6,676</b>  | (9.3)  |
| EBITDA <sup>1</sup>                                   | 20,743                          | 10,265                                    | <b>9,982</b>  | (2.8)  |
| Capital expenditure <sup>2</sup>                      | 11,666                          | 4,420                                     | <b>6,140</b>  | 38.9   |
| Operating free cash flow                              | 2,229                           | (633)                                     | <b>1,099</b>  | 273.6  |
| Net debt  | 16,615                          | 17,732                                    | <b>19,622</b> | 10.7   |
| Basic EPS (ZAR cents)                                 | 1,565.0                         | 724.3                                     | <b>723.9</b>  | (0.1)  |
| Headline EPS (ZAR cents) <sup>1</sup>                 | 1,634.8                         | 742.3                                     | <b>745.2</b>  | 0.4    |
| Operating profit margin (%)                           | 26.0                            | 27.0                                      | <b>22.3</b>   | (17.4) |
| EBITDA margin (%)                                     | 36.9                            | 37.7                                      | <b>33.4</b>   | (11.4) |
| Net debt to EBITDA                                    | 0.8                             | 1.7                                       | <b>2.0</b>    | 13.8   |
| After tax operating return on assets (%) <sup>3</sup> | 18.6                            | 9.3                                       | <b>8.2</b>    | (11.8) |
| Capex to revenue (%) <sup>3</sup>                     | 20.7                            | 16.2                                      | <b>20.5</b>   | 26.5   |

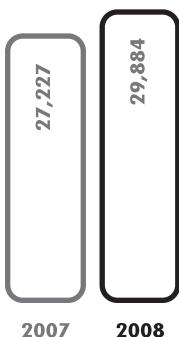
*The assets and liabilities of Telkom Media have been presented as held for sale following a decision made by the Telkom Board in March 2008 to substantially reduce its investment in Telkom Media. Prior year amounts have been adjusted to show the effect of the discontinued operation held for sale.*

1. EBITDA and earnings have been reconciled to net profit – Refer to page 59.

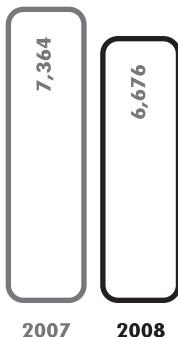
2. Including spend on intangible assets.

3. Not annualised.

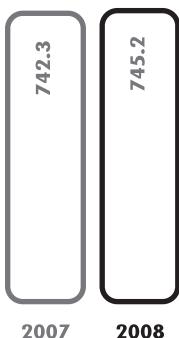
GROUP OPERATING REVENUE —  
GROWTH OF 9.8%



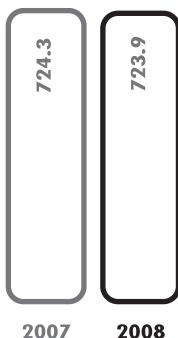
GROUP OPERATING PROFIT —  
DECREASED BY 9.3%



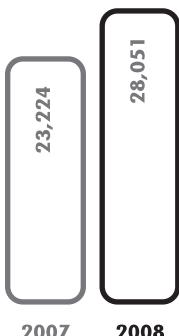
HEADLINE EARNINGS PER SHARE —  
INCREASED BY 0.4%



BASIC EARNINGS PER SHARE —  
FLAT

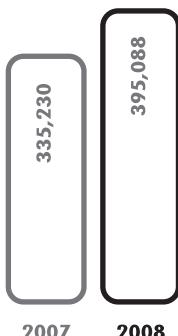


MANAGED DATA NETWORK SITES —  
INCREASED BY 20.8%

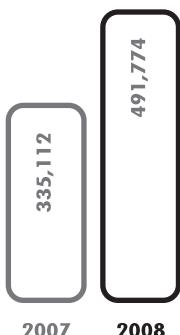


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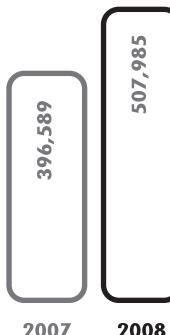
INTERNET ALL ACCESS SUBSCRIBERS —  
INCREASED BY 17.9%



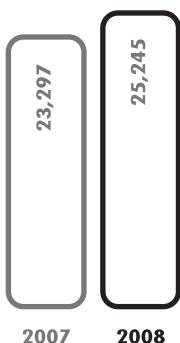
**ADSL SUBSCRIBERS –  
INCREASED BY 46.7%**



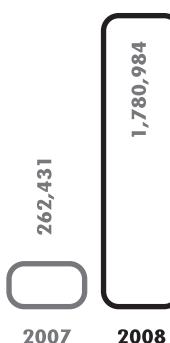
**CALLING PLAN SUBSCRIBERS –  
INCREASED BY 28.1%**



**SA MOBILE CUSTOMERS –  
INCREASED BY 8.4%**

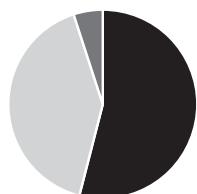


**MULTI-LINKS CUSTOMERS –  
INCREASED BY 578.6%**



#### SEGMENT CONTRIBUTION (AFTER INTER-SEGMENTAL ELIMINATIONS)

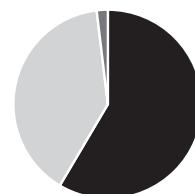
##### GROUP OPERATING REVENUE



##### GROUP OPERATING PROFIT



##### GROUP OPERATING EBITDA



## OPERATIONAL DATA

|   | As at<br>March 31,<br>2008 | As at September 30,<br>2007 | As at September 30,<br>2008 | %      |
|---|----------------------------|-----------------------------|-----------------------------|--------|
| <b>Fixed-line data</b>                                  |                            |                             |                             |        |
| ADSL subscribers <sup>1</sup>                           | 412,190                    | 335,112                     | 491,774                     | 46.7   |
| Calling plan subscribers                                | 451,122                    | 396,589                     | 507,985                     | 28.1   |
| Fixed access lines ('000) <sup>2</sup>                  | 4,532                      | 4,621                       | 4,504                       | (2.5)  |
| Postpaid — PSTN   | 2,893                      | 2,950                       | 2,839                       | (3.8)  |
| Postpaid — ISDN channels                                | 754                        | 735                         | 772                         | 5.0    |
| Prepaid   | 743                        | 782                         | 754                         | (3.6)  |
| Payphones   | 143                        | 154                         | 139                         | (9.7)  |
| Fixed-line penetration rate (%)                         | 9.5                        | 9.8                         | 9.3                         | (5.1)  |
| Revenue per fixed access line (ZAR)                     | 5,250                      | 2,588                       | 2,635                       | 1.8    |
| Total fixed-line traffic (millions of minutes)          | 26,926                     | 13,959                      | 12,709                      | (9.0)  |
| Local   | 11,317                     | 6,198                       | 4,688                       | (24.4) |
| Long distance   | 3,870                      | 2,016                       | 1,870                       | (7.2)  |
| Fixed-to-mobile   | 4,169                      | 2,093                       | 2,111                       | 0.9    |
| International outgoing                                  | 635                        | 305                         | 319                         | 4.6    |
| International VoIP                                      | 43                         | 21                          | 17                          | (19.0) |
| Interconnection   | 3,895                      | 1,881                       | 2,000                       | 6.3    |
| Domestic mobile interconnection                         | 2,502                      | 1,226                       | 1,241                       | 1.2    |
| Domestic fixed interconnection                          | 113                        | 16                          | 160                         | 900.0  |
| International interconnection                           | 1,280                      | 639                         | 599                         | (6.3)  |
| Subscription based calling plans                        | 2,997                      | 1,445                       | 1,704                       | 17.9   |
| Managed data network sites                              | 25,112                     | 23,224                      | 28,051                      | 20.8   |
| Internet all access subscribers <sup>3</sup>            | 358,066                    | 335,230                     | 395,088                     | 17.9   |
| Fixed-line employees (excluding subsidiaries)           | 24,879                     | 25,570                      | 24,075                      | (5.8)  |
| Fixed access lines per fixed-line employee <sup>4</sup> | 182                        | 181                         | 187                         | 3.3    |
| <b>Mobile data<sup>5</sup></b>                          |                            |                             |                             |        |
| Total customers ('000)                                  | 33,994                     | 31,564                      | 35,689                      | 13.1   |
| <b>South Africa</b>                                     |                            |                             |                             |        |
| Mobile customers ('000)                                 | 24,821                     | 23,297                      | 25,245                      | 8.4    |
| Contract customers                                      | 3,541                      | 3,409                       | 3,735                       | 9.6    |
| Prepaid customers                                       | 21,177                     | 19,790                      | 21,391                      | 8.1    |
| Community services telephones                           | 103                        | 98                          | 119                         | 21.4   |
| Mobile churn (%)  | 42.3                       | 45.9                        | 42.3                        | (7.8)  |
| Contract churn  | 8.3                        | 8.3                         | 9.7                         | 16.9   |
| Prepaid churn   | 47.9                       | 51.9                        | 48.1                        | (7.3)  |
| Estimated mobile market share (%) <sup>6</sup>          | 55                         | 56                          | 53                          | (5.4)  |
| Mobile penetration (%)                                  | 94                         | 87                          | 100                         | 14.9   |
| Total mobile traffic (millions of minutes)              | 22,769                     | 11,024                      | 11,793                      | 7.0    |
| Mobile ARPU (ZAR) <sup>7</sup>                          | 128                        | 122                         | 132                         | 8.2    |
| Contract ARPU   | 486                        | 487                         | 481                         | (1.2)  |
| Prepaid ARPU  | 62                         | 59                          | 66                          | 11.9   |
| Community services                                      | 689                        | 711                         | 584                         | (17.9) |
| Number of mobile employees <sup>8</sup>                 | 4,849                      | 4,716                       | 4,979                       | 5.6    |
| Mobile customers per mobile employee                    | 5,119                      | 4,940                       | 5,070                       | 2.6    |
| <b>Other African countries</b>                          |                            |                             |                             |        |
| Mobile customers ('000)                                 | 9,173                      | 8,267                       | 10,444                      | 26.3   |
| Number of mobile employees                              | 1,992                      | 1,524                       | 1,609                       | 5.6    |
| Number of mobile customers per mobile employee          | 4,605                      | 5,425                       | 6,491                       | 19.6   |
| <b>Other data</b>                                       |                            |                             |                             |        |
| <b>Africa Online</b>                                    |                            |                             |                             |        |
| Number of subscribers <sup>9</sup>                      | 17,252                     | 14,411                      | 17,773                      | n/a    |
| Number of employees                                     | 379                        | 351                         | 357                         | 1.7    |
| <b>Multi-Links</b>                                      |                            |                             |                             |        |
| Number of subscribers                                   | 813,392                    | 262,431                     | 1,780,984                   | 578.6  |
| Number of employees                                     | 680                        | 673                         | 1,006                       | 49.5   |

1. Excludes Telkom internal lines of 880 (September 30, 2007:691).

2. Excludes Telkom internal lines of 110,733 (September 30, 2007:109,000).

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

4. Based on number of fixed-line employees, excluding subsidiaries.

5. 100% of Vodacom data.

6. Based on Vodacom estimates.

7. With effect from April 1, 2008, ARPU calculations include revenues from national roamers and international visitors roaming on Vodacom's network. Historical ARPU numbers have been restated in line with this new methodology.

8. Includes Holding company and Mauritius employees.

9. From April 1, 2008, Africa Online changed the method of counting subscribers to include all the individual corporate sites as individual customers. The comparative information for September 2007 has not been restated.

## 2. Operational overview

### LEVERAGING OUR CORE NETWORK STRENGTH

The competitive landscape has changed radically over the last few years with the mobile operators, Internet Service Providers and Value Added Networks increasingly entering what has traditionally been the fixed-line domain. Neotel is building its network and services capabilities and competing on price. The regulatory environment is also geared to generate competition in the fixed-line environment. As a result we are seeing the fixed-line revenue being eroded through both competition and price reductions which are necessary to maintain volume and to act for the benefit of the South African consumer through lowering the costs of telecommunication services. The fixed-line business intends to aggressively reposition itself within the African telecommunications environment.

Telkom's prime asset and core strength is its network. Telkom's Board and management have developed strategies to leverage this asset to drive revenue and profit growth into the future. No other telecommunications operator in South Africa has a network that can deliver the speed, quality and reliability of the fixed-line network. The continued growth in the Next Generation Network (NGN) is also providing the network intelligence to provide innovative, cost effective solutions which can be brought to the market rapidly. Telkom intends to exploit this opportunity for leveraging the network to provide for the increasing demand for capacity, new data and converged products. Global developments are initiating exciting opportunities to utilise the NGN for sourcing revenue from both vendors and customers through allowing access to the intelligence and strength of an open platform. Telkom's drive to capitalise on fixed-mobile convergence products through high value adding bundles will leverage the network further. In this respect, Telkom is uniquely positioned in that it has built and owns the backbone infrastructure for the mobile networks in South Africa. Telkom also has the opportunity to explore methods of exploiting the arbitrage between fixed and mobile pricing and benefiting from the saving on interconnection costs. Having mobile capabilities will also improve Telkom's ability to secure opportunities for growth on the African continent. Telkom's strength in the data market will be enhanced by the extension of data hosting capabilities in South Africa and Africa. There is significant opportunity to extract synergies through the bundling of network services with IT and hosting capabilities. In addition, corporates and multinationals in Africa require international connectivity and data solutions.

The conclusion of Telkom's mobile strategy review with the announcement on November 6, 2008 of the sale of 15% of Telkom's stake in Vodacom to the Vodafone Group and the unbundling of the remaining 35% stake to Telkom's shareholders will result in the termination of the shareholder agreement between Telkom and Vodafone. The ending of the restrictive conditions contained in that agreement will allow Telkom rapidly and aggressively to reposition itself to take advantage of the strength of the fixed-line network to move in to fixed-mobile convergence.

### DEFEND AND GROW STRATEGY SHOWING CONTINUED SUCCESS

Telkom continues to drive revenue into annuity based streams through bundled products in order to defend and grow revenues. Annuity revenues increased 7.6% to R3,595 million at September 30, 2008. Annuity revenues exclude line installations, reconnection fees and CPE sales.

Telkom Closer packages increased 28.1% to 507,985 calling plans with a notable 92.6% increase in the entry level Telkom Closer 1 plan to 9,906 bundles. Supreme Call packages targeted at the enterprise market grew 23.7% to 13,919 packages. Subscription based calling plans revenue increased 40.6% to R620 million. Telkom also continues to migrate corporate customers into long term contracts providing benefits in relation to term and volume discounts.

Bundled products reduce churn and incentivise customers to remain loyal to Telkom. The cannibalisation effect, augmented by continuing fixed to mobile substitution, is evident in our traffic revenues. Revenue from local traffic decreased 11.5% to R1,881 million with local minutes decreasing 24.4% to 4,688 million minutes. Long distance revenues decreased 14.0% to R1,048 million with minutes decreasing 7.2% to 1,870 million minutes. Fixed to mobile traffic revenues remained flat at R3,803 million with minutes also remaining flat at 2,111 million minutes. International outgoing revenues decreased 3.4% to R481 million with minutes increasing 4.6% to 319 million minutes. Interconnection revenue increased 14.8% to R956 million.

It is evident that Telkom needs to offer fully converged services including mobility in order to pull traffic back onto the fixed-line network. We look forward to offering our customers fully converged bundles offering significantly enhanced services and value.

## **DATA CONTINUES TO GROW STRONGLY**

Data revenues grew 12.2% to R4,459 million. Internet access and related services revenue grew 30.2% to R700 million and managed data network services revenue increased by 42.1% to R444 million. Revenue from leased lines decreased by 4.2% to R862 million as a result of decreased pricing in order to combat self provisioning by other operators. Telkom is confident that its revised pricing combats continued moves from other operators to self provide. Telkom's scale makes it difficult for other operators to compete on the cost of leased line provisioning.

ADSL subscribers grew by 46.7% to 491,774 subscribers over the comparative reporting period and Do Broadband subscribers increased to 154,095 from 78,780 at September 30, 2007. Continued growth has been stimulated by the commoditisation of ADSL, the Do Broadband offering, the Self Install Option, DSL port automation and wholesale services. Telkom continues to target ADSL penetration of 15% – 20% of fixed access lines by 2010/2011 with the introduction of new service offerings and aggressive price reductions. Telkom's continued focus on improving customer service has led to an improvement in the average time to install (ATTI) to 17 working days from the 20 working days achieved for the year ended March 31, 2008.

The introduction of the Self Install Option is expected to continue to improve the ATTI. As at March 31, 2008 57% of all ADSL installations were done through the Self Install Option. As at September 30, 2008 60% of all ADSL installations were Self Installs. The Self Install Option has been very successful but does tie up the call centres as our agents guide customers through the installation process.

Further effort has gone into improving our customer satisfaction levels. DSL automation has automated the port allocation resulting in fewer errors and further reducing the lead time associated with the allocation of the DSL ports. A broadband demand register has been set up to hold orders that cannot be serviced due to infrastructure constraints. This intelligence is being used to align our DSL build programme with actual demand. In addition, the Broadband Service Assurance Solution being developed will provide users with self-help and self-diagnostic tools. This is particularly important to Internet Service Providers who will be able to provide first line maintenance and support capabilities, improving their customer service. The launch of the wholesale ADSL product offering has contributed to the growth of ADSL with 35,688 services being sold during the period ending September 30, 2008 up from 21,469 sold to March 31, 2008.

ADSL DSLAMs have increased from 2,660 at March 31, 2008 to 3,036 at September 30, 2008 covering more than 92% of Telkom's existing customer footprint. In extending and complimenting our ADSL footprint, Telkom continues to roll out WiMAX base stations and is on track to reach the target of 76 base stations by March 31, 2009. Telkom has 50 WiMAX base stations currently installed. WiMAX has been deployed to provide broadband connectivity to customers that are not in the ADSL footprint and in areas that have been hard hit by copper theft and in high maintenance areas.

## **VODACOM DELIVERS STRONG PERFORMANCE**

Vodacom again performed exceptionally well in the six months to September 30, 2008 delivering 14.0% growth in revenue to R26,016 million with a South African market share of approximately 53%. Vodacom increased its profit from operations by 12.5% to R6,430 million and increased net profit by 2.7% to R3,694 million (Telkom Group 50% share: R1,847 million) and delivered a constant EBITDA margin of 33.3%.

Vodacom's total customer base increased by a net of 4.1 million customers to 35.7 million customers as at September 30, 2008. South African mobile customers increased by 8.4% to 25.2 million (September 30, 2007: 23.3 million) for the six months ended September 30, 2008, reinforcing Vodacom's market leadership position in South Africa. Customers grew by 34.1% to 4.9 million (September 30, 2007: 3.7 million) customers in Tanzania, by 18.8% to 3.8 million (September 30, 2007: 3.2 million) customers in the Democratic Republic of Congo, by 35.5% to 450 thousand (September 30, 2007: 332 thousand) customers in Lesotho, and by 19.3% to 1.3 million (September 30, 2007: 1.1 million) customers in Mozambique.

Vodacom's data revenue increased by 43.3% to R3,004 million (50% share: R1,502 million) for the six months ended September 30, 2008 contributing 11.5% (September 30, 2007: 9.2%) to mobile operating revenue.

Vodacom's other African operations contributed 12.7% (September 30, 2007: 11.0%) to revenue with 10.4 million (September 30, 2007: 8.3 million) customers. These operations constitute 29.3% of the total customer base. All of Vodacom's other African operations, with the exception of Vodacom Mozambique, are profitable. Mozambique remains a tough market but the outlook, and particularly the competitive landscape, has improved and we remain confident that in the medium to long-term it will contribute to the overall growth of Vodacom.

On the conclusion of the transaction with Vodafone, Vodacom will be listed on the JSE with Telkom shareholders owning a direct equity stake of 35% in Vodacom. Vodacom will be used as Vodafone's vehicle for expansion in sub-Saharan Africa excluding, North Africa, Ghana and Kenya. Vodacom will seek to comply with best corporate governance practices and have an independent, non-executive chairman and a majority of non executive directors. Vodacom will be free from having often miss-aligned shareholder strategies and is expected to benefit from simpler decision making processes as a result of Vodafone's majority control. Vodacom will be able to capitalise on Vodafone's product range and enormous research and development expertise.

## FIXED-MOBILE CONVERGENCE

Telkom announced at the Analyst day on March 31, 2008 that it intends to build a fixed-wireless network to provide mobile data services and fixed-wireless voice services. An initial footprint of 38 base stations has been established in Pretoria and Johannesburg. The target is to have in excess of 220 operational base stations by March 31, 2009. Telkom has completed trials on both our voice and data services during September 2008. The first paying external trial customers were connected on September 29, 2008. The trials have been very successful. Customer feedback has been very positive about the quality of the services and the overall value proposition on our fixed-wireless and nomadic data products. The nomadic voice product is still going through internal product development and we will add trial customers early in December 2008. The internal trials have been successful and we expect that the customer trials on this service will also be successful.

The first 38 base stations were dimensioned for 3,000 voice subscribers and 600 data subscribers at 24 Kbits (Committed Information Rate). All future stations will be dimensioned for 1,000 voice subscribers and 200 data subscribers at 24 Kbits. The base stations can be enabled (software upgradable) anytime for higher subscriber numbers.

On conclusion of the Vodacom transaction, expected in the first half of 2009, Telkom will be able to provide its customers with mobile voice services. We are looking forward to execute on the selective build out of the mobile network. We intend to target our corporate customers and high income residential areas by adding mobility into the bundled service they already utilise from Telkom. We will also use mobility to reduce the cost of servicing areas affected by copper theft and high maintenance costs. Telkom's ability to service rural areas will be greatly enhanced by the use of more economical mobile technology.

The products and services to be launched on this technology will certainly give our customers a lasting positive experience. This innovative 3G network supports services such as high-speed internet access, video and high-quality voice transmission. We are initially focusing on providing fixed-voice and fixed-wireless data services and within weeks, we also plan to roll-out nomadic voice services. The network footprint will be expanded rapidly during the next 6 months.

## AFRICAN INVESTMENTS

Telkom continues to pursue growth by diversifying our revenue streams into African markets that offer high growth potential. We are still in the early phases of our move into Africa and are continuing to build out both Multi-Links and Africa Online. We are pleased to announce the acquisition of M-Web Africa Limited and 75% of M-Web Namibia (Pty) Limited for USD63 million. The Telkom Management Services Company is assessing various options particularly with regard to the privatisation and potential management contract opportunities in relation to a number of African incumbent operators.

## MULTI-LINKS

Telkom owns 75% of Multi-Links, a private telecommunications operator with a Universal Access License in Nigeria allowing fixed, mobile, fixed-wireless, international and data services.

Multi-Links performed well in growing its subscriber base to 1,780,984 subscribers at September 30, 2008. For the twelve month period, Multi-Links added 1,518,553 subscribers of which 967,592 subscribers were connected since March 31, 2008.

As at October 31, 2008 Multi-Links' subscriber base had grown to 2,108,649 subscribers. October also saw the launch of broadband EVDO (3G equivalent) data services in Lagos and Abuja which are expected to significantly enhance Multi-Links' revenue streams and service offerings, especially once these services are extended to other regions in the near future.

Multi-Links' service offerings currently include voice services on fixed and mobile handsets, closed user group and business centre services. Mobile internet access is provided to approximately 70,000 narrowband subscribers and 240 broadband EVDO subscribers at present. Local and international leased lines are also being provided to corporate customers.

Multi-Links reported revenue of R813 million (2007: R310 million), a loss before tax of R289 million (2007: profit before tax R4.6 million) and a net loss for the period of R254 million. The deferred tax credit is largely due to assessed losses.

Voice and data revenue contributed 72% of total revenue for the six month period, handset sales 20% and interconnect revenues 8%. Operating expenses of R1,081 million mainly consist of selling general and administrative expenses contributing 55% (2007: 41%), which are largely attributable to handset subsidies. Payments to other operators is the next largest contributor to operating expenses at 29% of the total operating expenses.

Multi-Links' EBITDA percentage for the six month period was negative at 19.8%, largely due to the handset subsidies incurred. A positive EBITDA is however forecast for the full year under review.

The Average Revenue per User (ARPU) achieved for the six month period ended September, 30 2008 was USD14. ARPU has fallen significantly during this period as a result of the rapidly expanding subscriber base whilst the revenues attributable to these new subscribers were not earned for the full six month period. In addition the launch of our mobile data package, EVDO, was delayed and only launched in October 2008. ARPUs are expected to increase slightly by the end of the current financial year as the subscribers added during the first six months of the financial year start generating revenues over a longer period of use.

Multi-Links reported total minutes of use of 737,483,022 representing 133,919,542 incoming minutes of use and 603,563,480 outgoing minutes of use.

In order to improve financial performance Multi-Links is capitalising on fibre swapping, improving point of sales, customer distribution channels, operating and business support systems and driving wholesale leasing.

Net debt has increased to approximately R2.9 billion (2007: R302 million) as a result of the capital infrastructure roll out. The capital expenditures are being funded with a US dollar denominated shareholder's loan from Telkom SA Ltd and vendor financing arrangements from key suppliers. Interest charges due to Telkom for the six month period amounted to R47.1 million out of the total interest charge of R48.2 million.

Multi-Links invested approximately R1,730 million (2007: R128 million) in capital expenditure during the period under review and grew its access network to 589 transmission stations and its fibre deployment to 3,800 kms by September 30, 2008. The total capital expenditure for the full year is expected to be in the region of R4 billion.

In addition, Multi-Links has commissioned a Huawei packet exchange in Abuja with a capacity of 300,000 subscribers, extended the Lagos switch capacity by 250,000 subscribers and established a new main network site in Gbagada, Lagos. The Lagos Metro Ethernet ring has now been completed and Abuja is nearing completion. Plans are underway for the deployment of Metro Ethernet rings in Kanu, Kaduna and the Delta region. Six NGN nodes are planned to be built in the 2009 financial year greatly extending Multi-Links' ability to provide data products to corporate customers.

Multi-Links has 11 Customer Services Branches across Nigeria, with 20 more being planned to open before March, 31 2009. It is represented by Customer Services Branches or contact points in all 29 states that it operates in. The call centre receives an average of 27,000 calls a day. Larger premises to accommodate additional call centre staff are being sourced.

The prospects for Multi-Links are strong and the company intends to capitalise on Telkom's brand and access to international data connectivity.

The resilience and quality of international connectivity via the SAT3 submarine cable provides great opportunities to Multi-Links in servicing the corporate, wholesale and retail markets in Nigeria.

## **AFRICA ONLINE**

Africa Online increased its revenues to R63 million in the six months ended September 30, 2008. The major contributors to revenue were consumer wireless and broadband VSAT services.

Consumer wireless revenue growth was predominantly in Kenya and Uganda and the introduction of wireless in Tanzania, whilst growth in Pan African business revenues accounted for the increase in Broadband VSAT.

Africa Online assumed responsibility for Telkom's African VSATs in January 2008, with the responsibility to perform service activation and assurance of various VSAT and point to point satellite links in neighbouring countries and on the rest of the African continent. Growing this business is expected to have future revenue generating capabilities for Africa Online.

The company reported a positive EBITDA margin of 1.6% and an operating loss of R8 million largely as a result of the interest paid on Telkom's shareholder funding.

Africa Online's infrastructure roll out has not progressed as rapidly as expected due to longer than anticipated equipment lead times experienced in several countries of operation.

## **M-WEB AFRICA**

Telkom announced the acquisition of M-Web Africa Limited and 75% of M-Web Namibia (Pty) Limited for USD63 million (approximately R610 million).

M-Web Africa is an internet services provider in Sub-Saharan Africa (excluding South Africa) and also provides network access services in some countries. Although its operations are largely focused on corporate customers, M-Web Africa's predominantly satellite-based internet access offerings allows the company to reach a wide range of customers, many of whom are not reached by traditional fixed-line infrastructures.

The M-Web Africa group is headquartered in Mauritius with operations in Namibia, Nigeria, Kenya, Tanzania, Uganda and Zimbabwe, an agency arrangement in Botswana and distributors in 26 sub-Saharan African countries.

The successful conclusion of the agreements being entered into is subject to conditions precedent, including regulatory approvals being obtained in certain African jurisdictions.

Telkom anticipates that it will extract significant synergies from the combination of M-Web Africa and Africa Online. These two companies can leverage the strength of Telkom's ISP services into Africa. The Africa Online business, coupled with M-Web Africa, will strengthen Telkom's position as a pan-African information and communication technology service provider with the depth to provide retail and wholesale customers with the services they require.

## TELKOM MEDIA

Telkom announced on March 31, 2008 that it will substantially reduce its shareholding in Telkom Media. Negotiations with a potential investor have progressed and an announcement of the details of this transaction can be expected shortly.

The Telkom SA Ltd shareholder loan of R430 million to Telkom Media has been fully impaired as at September 30, 2008. R217 million was impaired up to March 31, 2008 and an additional R213 million in the six months ended September 30, 2008.

## IMPROVING CUSTOMER SERVICE

Improved customer service is vital to defending and growing revenue. Sustainable and profitable growth in the customer base requires creating and strengthening capabilities focused on managing customer relationships and learning from acquired customer information. This will allow Telkom to manage the customer experience and anticipate customer needs.

The following key activities are taking place during the 2009 financial year:

- The establishment of a robust customer data and customer analytics (CA) project is underway.
- A refined customer segmentation programme based on value and needs is underway. Residential macro and micro segmentation results were finalised during October 2008. It is expected that the Enterprise market programme will be completed by mid December 2008. This provides Telkom with a new segmentation framework that will provide increased and renewed focus on our different customer segments.
- Improved churn management — Churn modelling will be completed during the first quarter of 2009.
- We have introduced Customer Portfolio Management (CPM) for all segments to move away from being predominantly product centric. Segment managers for segments have been appointed. The transition period commenced in October 2008 and will be completed by March 2009. The full roll-out of CPM will commence in the 2009 financial year.
- Contact centre network has been streamlined to make it easier for customers to access and interact with Telkom. We managed to improve the percentage of calls answered within 20 seconds (SVL) across our contact centres. The mass and enterprise markets SVL improved by 7% and we managed to handle 1,128,036 more calls compared to the same period last year. Overall we answered 9,985,106 calls. Within operator services we improved the average Speed of Answer by 184%. As a result of the demand for our broadband products, the key focus for the next six months will be to enhance our service delivery within the ADSL contact centres.
- Customer communication has been improved. The escalation process has been redesigned and was implemented on September 1, 2008. A new Telkom persona/voice was introduced into Call Centres with simplified call flows and options available to customers.

The above initiative demonstrates Telkom's commitment to improving customer service levels.

## KEY NEXT GENERATION NETWORK, CAPACITY AND PRODUCT DEVELOPMENTS

Telkom is in the 3rd year of its NGN build out programme. Customer demands and global standards necessitate the provision of services and particularly bandwidth that is only possible utilising the intelligence of an NGN system. Telkom intends to maintain the strength and capacity of its network as a differentiator over our competitors. The following key achievements are worth mentioning:

- An increase of the ADSL footprint to 3,036 DSLAMs, covering more than 92% of Telkom's existing customer footprint.
- An increase of the Metro Ethernet footprint to 103 nodes deployed in major cities, using 10Gbit/s and 1 Gbit/s line systems. i.e. at Cape Town (18), Johannesburg (48), Pretoria (8) Durban (18) and Port Elizabeth (11).
- Dense Wave Division Multiplexing (DWDM) systems capable of forty 10 Gbit/s signals over a single pair of fibre. The first system was deployed between Gauteng and Durban. The full deployment of this technology will provide the potential to increase the transport bandwidth capability. A significant rollout of these systems between all major cities in SA is currently underway and expected to be completed during the 2009 financial year.
- The rollout of switches to provide automatic self-healing re-routing of bandwidth on the national layer is underway and expected to be completed during the 2009 financial year.
- Total International IP bandwidth has increased by 0.67 Gbits/s to a total of 5.166 Gbits/s.
- ATM network available bandwidth on the core and metro layers has increased by 23 Gbits/s to a combined 170 Gbits.
- Network Interactive Voice Response System deployed which offers advanced speech services such as automated speech recognition and a text-to-speech application enabling Corporate customers and Telkom to enhance their voice systems.
- 237 Wi-Fi hotspots have been deployed at strategic partner locations.
- Fibre deployment has increased from 117,000 cable.kms to 128,000 cable.kms, which is a growth of 9.5%. Cable.kms refers to the "pure" length of fibre irrespective of the number of fibre strains.
- IMAX has been introduced into the system and is ready to carry traffic. IMAX has the ability to carry narrowband and broadband services for wire-line legacy and converged services.

## **THE REGULATORY ENVIRONMENT**

Telkom faces continuous regulatory challenges covering *inter alia* competition issues and changes in policies. Through constructive dialogue, the Company endeavours to achieve a regulatory framework that is realistic, equitable and beneficial to the industry. The following details the main changes to the regulatory environment affecting the industry and Telkom during the year.

### **Electronic Communications (EC) Act**

ICASA had to address the task of developing the market regulation framework. ICASA has issued since December 2007 some 10 draft regulations, dealing with the identification and definition of the various relevant markets, the methodologies for analysing these markets to determine the level of competition, or lack thereof, proposed rules on the leasing of communication facilities, on interconnection, on the special treatment of facilities that are deemed to be "essential" and on the owners thereof. Telkom will, of course, be affected for the most part by all these developments.

Regarding the pro competition regulations, in March 2008 ICASA published draft regulations on the processes and methodologies that ICASA will use for the definition of the relevant markets, for determining the effectiveness of competition in markets, for the identification of licensees having significant market power, and for ensuring that pro-competitive remedies imposed are reasonable and proportionate in addressing market failure.

**12**

### **Licence conversion**

ICASA has started a process of converting our licenses to the new licensing framework. Regulations providing the framework to convert our PSTS and VANS licenses have been published by ICASA, including the standard terms and conditions that will apply to all electronic communications services and all electronic communications network services licenses, including ours. ICASA has proposed draft additional conditions applicable to the electronic communications service and electronic communications network service licences that will be issued to existing licensees, including Telkom. ICASA, after taking into account the comments received, is expected to publish final proposed terms and conditions for public comment. It is, however not likely that ICASA will complete the licence conversion process before the end of December 2008. We presume that the technology neutrality of the Electronic Communications Act will result in us being able to explore new horizons; how far we will be allowed to go, however, and at what cost, is not yet clear.

Telkom continuously engages in negotiations for interconnection, shared access and facilities leasing agreements. Interconnectivity agreements with Neotel and the majority of VANS have been concluded.

### **Number portability (NP)**

Mobile number portability has been in operation since 2006. Anecdotal evidence is that mobile porting in South Africa was slower than it was expected to be, although the high cost of implementation has duly materialised. Fixed-line porting, essentially between Telkom and Neotel, has not yet happened. Testing of inter-operator systems is in progress and some form of portability is expected to soon be in place. The existence of very active VoIP service providers has led to further competition for our fixed-line network. Carrier pre-selection between Telkom and Neotel has also not yet been established, as Neotel has not yet been allocated the necessary selection codes by ICASA.

### **Local loop unbundling (LLU)**

Telkom is required, in terms of existing legislation, to provide Neotel with shared access to its local loop. Although the Telecommunications Act, 103 of 1996, provided that no general local loop unbundling would be required after the first two years of operation of Neotel, the EC Act, which repeals the Telecommunications Act, makes provision for unbundling of the local loop, subject to ICASA making the necessary regulations. The Minister of Communications published policy decisions that the process of unbundling the local loop in South Africa should be urgently implemented and completed by 2011. On May 23, 2007, the Local Loop Unbundling Committee set up by the Minister of Communications to develop appropriate policies for the unbundling of the local loop in South Africa recommended, amongst other things:

- three forms of local loop unbundling to be considered, full unbundling of the metallic loop, line sharing and wholesale bit stream access; and
- the regulatory process, with full industry participation has commenced and implementation must be completed in 2011.

### **Defining end-to-end leased lines and other wholesale markets**

The market review process undertaken by ICASA is aimed at determining the scope and boundaries of various fixed-line wholesale and retail markets (e.g. local access, national long distance, international, etc.). In terms of the process, ICASA is expected to:

- define the relevant markets;
- assess Telkom's market power and dominance in each market; and
- propose pro-competition regulations on Telkom.

## **3. Group performance**

### **GROUP OPERATING REVENUE**

Group operating revenue increased by 9.8% to R29,884 million (September 30, 2007: R27,227 million) in the six months ended September 30, 2008. Fixed-line operating revenue, before inter-segmental eliminations, increased by 2.8% to R16.6 billion primarily due to growth in data revenues, higher revenue from interconnection and subscriptions and connections, partially offset by lower traffic revenue. Mobile operating revenue, before inter-segmental eliminations, increased by 14.0% to R13,008 million primarily due to customer growth in all countries of operation.

### **GROUP OPERATING EXPENSES**

Group operating expenses increased by 16.9% to R23,454 million (September 30, 2007: R20,067 million) in the six months ended September 30, 2008, primarily due to a 12.5% increase in operating expenses in the fixed-line segment to R13,515 million (before inter-segmental eliminations) and a 14.5% increase in operating expenses in the mobile segment to R9,820 million (before inter-segmental eliminations). Fixed-line operating expenses increased primarily due to increased employee expenses, payments to other operators, selling, general and administrative expenses, depreciation, amortisation, impairment and write-offs and services rendered, partially offset by a decrease in operating leases. The increase in mobile operating expenses was primarily due to increased gross connections resulting in increased costs to connect customers onto the network as well as increased payments to other operators, depreciation and amortisation and increased staff expenses.

## **INVESTMENT INCOME**

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 4.6% to R136 million (September 30, 2007: R130 million), largely as a result of increased interest rates.

## **FINANCE CHARGES**

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 increased by 6.6% to R1,036 million (September 30, 2007: R972 million) in the six months ended September 30, 2008, primarily due to a 45.1% increase in interest expense to R1,258 million (September 30, 2007: R867 million) as a result of the 10.7% increase in net debt to R19,622 million (September 30, 2007: R17,732 million). In addition to the increase in the interest expense, net fair value and exchange movements on financial instruments resulted in a gain of R222 million for the six months ended September 30, 2008 (September 30, 2007: Loss of R105 million). The gain was mainly attributable to the revaluation of the Multi-Links put option.

## **TAXATION**

Consolidated tax expense decreased by 25.0% to R2,009 million (September 30, 2007: R2,678 million) in the six months ended September 30, 2008. The consolidated effective tax rate for the six months ended September 30, 2008 was 34.8% (September 30, 2007: 41.1%). Telkom Company's effective tax rate was 23.2% (September 30, 2007: 42.7%). The lower effective tax rate for Telkom Company in the six months ended September 30, 2008 was due to the Vodacom dividend received in the current period, but not in the six months ended September 30, 2007.

Vodacom's effective tax rate increased to 34.6% (September 30, 2007: 30.6%). The increase is mainly due to the STC charge on the dividend declared in the six months ended September 30, 2008.

## **PROFIT FOR THE YEAR AND EARNINGS PER SHARE**

Profit attributable to the equity holders of Telkom, decreased by 2.1% to R3,622 million (September 30, 2007: R3,700 million) in the six months ended September 30, 2008.

Group basic earnings per share remained flat at 723.9 cents per share (September 30, 2007: 724.3 cents) and Group headline earnings per share increased by 0.4% to 745.2 cents per share (September 30, 2007: 742.3 cents).

## **4. Group balance sheet**

The Group's balance sheet retained its strength and moved towards a more efficient capital structure. Net debt, after financial assets and liabilities, increased by 10.7% to R19,622 million (September 30, 2007: R17,732 million) resulting in a net debt to EBITDA ratio of 2.0 times from 1.7 times at September 30, 2007. On September 30, 2008, the Group had cash balances of R705 million (September 30, 2007: R778 million).

Interest-bearing debt, including credit facilities utilised, increased by 8.9% to R19,341 million (September 30, 2007: R17,766 million) in the six months ended September 30, 2008. Telkom Company issued new local bonds, the TL12 and TL15 with a nominal value of R1,060 million and R1,160 million respectively as well as money market term borrowings of R3,000 million during the six months ended September 30, 2008. The Group issued commercial paper bills with a nominal value of R6,316 million for the six months ended September 30, 2008 of which commercial paper bills with a nominal value of R6,684 million were repaid by September 30, 2008.

## 5. Group cash flow

Cash flows from operating activities increased by 344.1% to R3,033 million (September 30, 2007: R683 million), primarily due to lower dividend and tax payments partially offset by higher cash paid to suppliers and employees as a result of increased expenditure. Cash flows utilised in investing activities decreased by 25.1% to R5,262 million (September 30, 2007: R7,028 million), primarily due to acquisitions in the six months ended September 30, 2007, partially offset by higher capital expenditure in both the fixed-line and other segments. Cash flows from financing activities includes loans raised of R10,105 million, partially offset by loans repaid of R9,127 million. Commercial paper debt with a nominal value of R6,684 million was repaid during the six months ended September 30, 2008.

### SUMMARY

| In ZAR millions  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2008 | %              |
|--|---------------------------------|---|----------------|
| Cash generated from operations                                     | 21,256                          | 8,313                                     | 8,350 0.5      |
| Cash from operating activities (after tax, interest and dividends) | 10,603                          | 683                                       | 3,033 344.1    |
| Investing activities   | (14,106)                        | (7,028)                                   | (5,262) (25.1) |
| Financing activities   | 2,943                           | 4,520                                     | 1,254 (72.3)   |
| Net decrease in cash   | (560)                           | (1,825)                                   | (975) (46.6)   |

The decrease in cash is as a result of the decision to continue to repay outstanding debt with minimal additional debt in order to avoid the current high interest rates and in the view of the expected cash inflow from the sale of 15% of our stake in Vodacom.

## 6. Group capital expenditure

Group capital expenditure which includes spend on intangible assets, increased by 38.9% to R6,140 million (September 30, 2007: R4,420 million) and represents 20.5% of Group revenue (September 30, 2007: 16.2%).

### GROUP CAPITAL EXPENDITURE

| In ZAR millions | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2008 | %             |
|-----------------|---------------------------------|---|---------------|
| Fixed-line      | 6,793                           | 2,647                                     | 2,744 3.7     |
| Mobile          | 3,460                           | 1,648                                     | 1,578 (4.2)   |
| Other           | 1,413                           | 125                                       | 1,818 1,354.4 |
|                 | 11,666                          | 4,420                                     | 6,140 38.9    |

## FIXED-LINE CAPITAL EXPENDITURE

| In ZAR millions              | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %      |
|------------------------------|---------------------------------|---|--------------|--------|
| Baseline                     | 4,039                           | 1,854                                     | <b>1,512</b> | (18.4) |
| Portfolio                    | 2,718                           | 765                                       | <b>1,232</b> | 61.0   |
| Revenue generating           | 57                              | 6   | <b>9</b>     | 50.0   |
| Network evolution            | 1,092                           | 204                                       | <b>607</b>   | 197.5  |
| Sustainment                  | 277                             | 114                                       | <b>39</b>    | (65.8) |
| Effectiveness and efficiency | 841                             | 352                                       | <b>401</b>   | 13.9   |
| Support                      | 451                             | 89  | <b>176</b>   | 97.8   |
| Regulatory and other         | 36                              | 28  | —            | —      |
|                              | <b>6,793</b>                    | <b>2,647</b>                              | <b>2,744</b> | 3.7    |

Fixed-line capital expenditure which includes spending on intangible assets, increased by 3.7% to R2,744 million (September 30, 2007: R2,647 million) and represents 16.6% of fixed-line revenue (September 30, 2007: 16.4%). Baseline capital expenditure of R1,512 million (September 30, 2007: R1,854 million) was largely for the deployment of technologies to support the growing data services business (including ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and residential areas. The continued focus on rehabilitating the access network and increasing the efficiencies and redundancies in the transport network contributed to the network evolution and sustainment capital expenditure of R646 million (September 30, 2007: R318 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. During the six months ended September 30, 2008, R401 million (September 30, 2007: R352 million) was spent on the implementation of several systems.

## MOBILE CAPITAL EXPENDITURE

| In ZAR millions               | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %      |
|-------------------------------|---------------------------------|---|--------------|--------|
| Property, plant and equipment | 2,475                           | 977                                       | <b>1,253</b> | 28.2   |
| Intangible assets             | 985                             | 671                                       | <b>325</b>   | (51.6) |
|                               | <b>3,460</b>                    | <b>1,648</b>                              | <b>1,578</b> | (4.2)  |

Mobile capital expenditure, which includes spending on intangible assets, decreased by 4.2% to R1,578 million (September 30, 2007: R1,648 million) and represents 12.1% of mobile revenue (September 30, 2007 14.4%) and was mainly spent on the cellular network infrastructure consisting of radio, switching and transmission network infrastructure and computer software.

## OTHER CAPITAL EXPENDITURE

| In ZAR millions | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %       |
|-----------------|---------------------------------|---|--------------|---------|
| Other           | 1,413                           | 125                                       | <b>1,818</b> | 1,354.4 |

Other capital expenditure consists of additions to property, plant and equipment for our subsidiaries TDS Directory Operations (Proprietary) Limited, Swiftnet (Proprietary) Limited, Africa Online Limited and Multi-Links Telecommunications Limited. Other capital expenditure, which includes spending on intangible assets, increased significantly to R1,818 million (September 30, 2007: R125 million) and represents 120.7% of other revenue (September 30, 2007: 13.9%). The significant increase in capital expenditure in the other segment is primarily due to the expansion of Multi-Links to build capacity for mobile voice and data products within the Nigerian market.

## 7. Segment performance

Telkom's operating structure comprises three segments, fixed-line, mobile and other. The fixed-line segment provides fixed-line voice and data communications services through Telkom. The mobile segment provides mobile services through our 50% joint venture interest in Vodacom. The other segment provides fixed, mobile, data, long distance and international telecommunications services throughout Nigeria, through our 75% owned subsidiary, Multi-Links, directory services through our 64.9% owned subsidiary, TDS Directory Operations, internet services in Côte d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, through our wholly owned subsidiary, Africa Online Limited and wireless data services through our wholly owned subsidiary, Swiftnet.

Vodacom's results are proportionately consolidated into the Telkom Group's consolidated financial statements. This means that we include 50% of Vodacom's results in each of the line items in the Telkom Group's consolidated financial statements.

*The financial information provided below is before any inter-segmental eliminations.*

### SUMMARY

| In ZAR millions              | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008    | %      |
|------------------------------|---------------------------------|---|---------|--------|
| Operating revenue            | 56,271                          | 27,227                                    | 29,884  | 9.8    |
| Fixed-line                   | 32,572                          | 16,108                                    | 16,565  | 2.8    |
| Mobile                       | 24,089                          | 11,407                                    | 13,008  | 14.0   |
| Other                        | 1,979                           | 902                                       | 1,506   | 67.0   |
| Inter-segmental eliminations | (2,369)                         | (1,190)                                   | (1,195) | 0.4    |
| Operating profit             | 14,619                          | 7,364                                     | 6,676   | (9.3)  |
| Fixed-line                   | 8,107                           | 4,286                                     | 3,257   | (24.0) |
| Mobile                       | 6,247                           | 2,856                                     | 3,220   | 12.7   |
| Other                        | 367                             | 232                                       | 20      | (91.4) |
| Inter-segmental eliminations | (102)                           | (10)                                      | 179     | –      |
| Operating profit margin (%)  | 26.0                            | 27.0                                      | 22.3    | (17.4) |
| Fixed-line                   | 24.9                            | 26.6                                      | 19.7    | (25.9) |
| Mobile                       | 25.9                            | 25.0                                      | 24.8    | (0.8)  |
| Other                        | 18.5                            | 25.7                                      | 1.3     | (94.9) |
| EBITDA                       | 20,743                          | 10,265                                    | 9,982   | (2.8)  |
| Fixed-line                   | 11,839                          | 6,154                                     | 5,252   | (14.7) |
| Mobile                       | 8,217                           | 3,799                                     | 4,329   | 14.0   |
| Other                        | 504                             | 322                                       | 188     | (41.6) |
| Inter-segmental eliminations | 183                             | (10)                                      | 213     | –      |
| EBITDA margin (%)            | 36.9                            | 37.7                                      | 33.4    | (11.4) |
| Fixed-line                   | 36.3                            | 38.2                                      | 31.7    | (17.0) |
| Mobile                       | 34.1                            | 33.3                                      | 33.3    | –      |
| Other                        | 25.5                            | 35.7                                      | 12.5    | (65.0) |

### FIXED-LINE SEGMENT

The fixed-line segment accounted for 55.5% (September 30, 2007: 59.2%) of Group operating revenues (before inter-segmental eliminations) and 48.8% (September 30, 2007: 58.2%) of Group operating profit for the six months ended September 30, 2008.

The financial information presented below for the fixed-line segment is before inter-segmental eliminations.

## SUMMARY

| In ZAR millions                  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008   | %      |
|----------------------------------|---------------------------------|---|--------|--------|
| Revenue                          | 32,572                          | 16,108                                    | 16,565 | 2.8    |
| Operating profit                 | 8,107                           | 4,286                                     | 3,257  | (24.0) |
| EBITDA                           | 11,839                          | 6,154                                     | 5,252  | (14.7) |
| Capital expenditure <sup>1</sup> | 6,793                           | 2,647                                     | 2,744  | 3.7    |
| Operating profit margin (%)      | 24.9                            | 26.6                                      | 19.7   | (25.9) |
| EBITDA margin (%)                | 36.3                            | 38.2                                      | 31.7   | (17.0) |
| Capex to revenue (%)             | 20.9                            | 16.4                                      | 16.6   | 1.2    |

1. Including spend on intangible assets.

## FIXED-LINE OPERATING REVENUE

| In ZAR millions                  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008   | %      |
|----------------------------------|---------------------------------|---|--------|--------|
| Subscriptions and connections    | 6,330                           | 3,118                                     | 3,233  | 3.7    |
| Traffic                          | 15,950                          | 8,077                                     | 7,833  | (3.0)  |
| Local                            | 4,076                           | 2,125                                     | 1,881  | (11.5) |
| Long distance                    | 2,252                           | 1,219                                     | 1,048  | (14.0) |
| Fixed-to-mobile                  | 7,557                           | 3,794                                     | 3,803  | 0.2    |
| International outgoing           | 986                             | 498                                       | 481    | (3.4)  |
| Subscription based calling plans | 1,079                           | 441                                       | 620    | 40.6   |
| Interconnection                  | 1,757                           | 833                                       | 956    | 14.8   |
| Mobile operators                 | 838                             | 407                                       | 445    | 9.3    |
| Fixed operators                  | 28                              | 5   | 36     | 620.0  |
| International operators          | 891                             | 421                                       | 475    | 12.8   |
| Data                             | 8,308                           | 3,975                                     | 4,459  | 12.2   |
| Leased lines and other data      | 6,460                           | 3,076                                     | 3,597  | 16.9   |
| Mobile leased facilities         | 1,848                           | 899                                       | 862    | (4.1)  |
| Other                            | 227                             | 105                                       | 84     | (20.0) |
|                                  | 32,572                          | 16,108                                    | 16,565 | 2.8    |

Operating revenue from the fixed-line segment, before inter-segmental eliminations, increased by 2.8% to R16,565 million (September 30, 2007: R16,108 million) primarily due to increased data, interconnection and subscription and connection revenues, partially offset by a decline in traffic revenue.

Subscription and connections revenue grew by 3.7% to R3,233 million (September 30, 2007: R3,118 million) largely as a result of increased rental tariffs and the increase in the number of ISDN channels.

Traffic revenue decreased by 3.0% as a result of the acceleration of broadband adoption and the resultant loss of internet dial-up minutes as well as the increasing substitution of calls placed using mobile services rather than fixed-line services. Revenue from subscription based calling plans increased 40.6% to R620 million primarily due to increased volumes as a result of a 28.1% increase in the number of subscribers to 507,985 (September 30, 2007: 396,589) in the six months ended September 30, 2008.

Interconnection revenue increased by 14.8% to R956 million (September 30, 2007: R833 million) largely as a result of an increase of 12.8% in international interconnection revenue and a 9.3% increase in domestic mobile interconnection revenue. The increased interconnection revenue from international operators is mainly a result of higher exchange rates partially offset by a 6.3% decrease in international interconnection traffic minutes to 599 million minutes (September 30, 2007: 639 million minutes). Mobile interconnection revenue increased by 9.3% to R445 million (September 30, 2007: R407 million) primarily due to increased interconnection traffic from mobile operators. Mobile interconnection traffic minutes increased by 1.2% to 1,241 million minutes (September 30, 2007: 1,226 million minutes) in the six months ended September 30, 2008.

Data revenue increased by 12.2% to R4,459 million (September 30, 2007: R3,975 million) mainly due to higher demand for data services, including ADSL, an increase in internet access and related services and managed data network services.

### FIXED-LINE OPERATING EXPENSES

| In ZAR millions  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008          | %     |
|--|---------------------------------|---|---------------|-------|
| Employee expenses  | 7,397                           | 3,414                                     | <b>4,079</b>  | 19.5  |
| Salaries and wages                                       | 5,509                           | 2,770                                     | <b>2,867</b>  | 3.5   |
| Benefits   | 2,671                           | 1,022                                     | <b>1,557</b>  | 52.3  |
| Other  | 3                               | 3   | <b>3</b>      | -     |
| Employee related expenses capitalised                    | (786)                           | (381)                                     | <b>(348)</b>  | (8.7) |
| Payments to other network operators                      | 6,902                           | 3,362                                     | <b>3,663</b>  | 9.0   |
| Payment to mobile operators                              | 5,460                           | 2,811                                     | <b>2,967</b>  | 5.5   |
| Payment to international operators                       | 1,208                           | 440                                       | <b>566</b>    | 28.6  |
| Payment to fixed-line operators                          | 234                             | 111                                       | <b>130</b>    | 17.1  |
| SG&A   | 3,899                           | 1,844                                     | <b>2,237</b>  | 21.3  |
| Materials and maintenance                                | 1,996                           | 1,044                                     | <b>1,062</b>  | 1.7   |
| Marketing  | 583                             | 271                                       | <b>260</b>    | (4.1) |
| Bad debts  | 217                             | 89  | <b>118</b>    | 32.6  |
| Other  | 1,103                           | 440                                       | <b>797</b>    | 81.1  |
| Services rendered  | 2,413                           | 1,186                                     | <b>1,213</b>  | 2.3   |
| Property management                                      | 1,222                           | 608                                       | <b>612</b>    | 0.7   |
| Consultants and security                                 | 1,191                           | 578                                       | <b>601</b>    | 4.0   |
| Operating leases   | 619                             | 337                                       | <b>328</b>    | (2.7) |
| Depreciation, amortisation,<br>impairment and write-offs | 3,732                           | 1,868                                     | <b>1,995</b>  | 6.8   |
|  | <b>24,962</b>                   | <b>12,011</b>                             | <b>13,515</b> | 12.5  |

Fixed-line operating expenses, before inter-segmental eliminations, increased by 12.5% in the six months ended September 30, 2008, to R13,515 million (September 30, 2007: R12,011 million), primarily due to increased employee expenses, payments to other network operators, selling, general and administrative expenses, depreciation, amortisation, impairment and write-offs and services rendered partially offset by a decrease in operating leases.

Employee expenses increased by 19.5%, largely due to increased share option grant expenses as a result of the higher number of shares awarded, increase in medical aid provision for pensioners and increased salaries and wages as a result of salary increases. Included in salaries and wages is an 11% general increase for the bargaining unit employees (September 2007: 6.85%) based on a new agreement concluded with labour unions.

Payments to other network operators increased by 9.0% as a result of increased payments to mobile and international operators. Payments to mobile operators increased by 5.5%, largely due to increased mobile outgoing traffic during peak hours as a result of discount structures offered in the corporate segment. Payments to international operators increased by 28.6% primarily due to the increase of volumes in switched hubbing and the higher exchange rates.

Selling, general and administrative expenses increased by 21.3% primarily as a result of the R213 million impairment of the Telkom Media loan and the R34 million impairment of the Africa Online investment.

Services rendered increased by 2.3% mainly as a result of increased security costs to secure the copper network and increased transport cost due to higher fuel prices.

Operating leases decreased by 2.7% primarily due to a 10.9% reduction in the vehicle fleet from 9,327 vehicles at September 30, 2007 to 8,313 vehicles at September 30, 2008.

The 6.8% increase in the depreciation, amortisation, impairment and write-offs to R1,995 million (September 30, 2007: R1,868 million) was mainly as a result of higher capital expenditure and less significant extension of useful lives of assets in the current period.

Fixed-line operating profit decreased by 24.0% to R3,257 million (September 30, 2007: R4,286 million) with an operating profit margin of 19.7% (September 30, 2007: 26.6%).

EBITDA decreased by 14.7% to R5,252 million (September 30, 2007: R6,154 million), with the EBITDA margin decreasing to 31.7%. (September 30, 2007: 38.2%).

## MOBILE SEGMENT

The mobile segment accounted for 43.5% of Group operating revenue (September 30, 2007: 41.9%) (before inter-segmental eliminations) and 48.2% of Group operating profits (September 30, 2007: 38.8%). Vodacom's operational statistics are presented below at 100%, but all financial figures represent the 50% that is proportionately consolidated in the Group and presented before inter-segmental eliminations.

## SUMMARY

| In ZAR millions                  | Year ended<br>March 31,<br>2008 |        | Six months ended<br>September 30,<br>2008 |        | % |
|----------------------------------|---------------------------------|--------|---|--------|---|
|                                  |                                 |        |   |        |   |
| Operating revenue                | 24,089                          | 11,407 | 13,008                                    | 14.0   |   |
| Operating profit                 | 6,247                           | 2,856  | 3,220                                     | 12.7   |   |
| EBITDA                           | 8,217                           | 3,799  | 4,329                                     | 14.0   |   |
| Capital expenditure <sup>1</sup> | 3,460                           | 1,648  | 1,578                                     | (4.2)  |   |
| Operating profit margin (%)      | 25.9                            | 25.0   | 24.8                                      | (0.8)  |   |
| EBITDA margin (%)                | 34.1                            | 33.3   | 33.3                                      | —      |   |
| Capex to revenue (%)             | 14.4                            | 14.4   | 12.1                                      | (16.0) |   |

1. Including spend on intangible assets.

## MOBILE OPERATING REVENUE

| In ZAR millions       | Year ended<br>March 31,<br>2008 |        | Six months ended<br>September 30,<br>2008 |      | % |
|-----------------------|---------------------------------|--------|---|------|---|
|                       |                                 |        |   |      |   |
| Airtime and access    | 13,548                          | 6,474  | 7,304                                     | 12.8 |   |
| Data                  | 2,501                           | 1,048  | 1,502                                     | 43.3 |   |
| Interconnect          | 4,443                           | 2,152  | 2,372                                     | 10.2 |   |
| Equipment sales       | 2,526                           | 1,196  | 1,245                                     | 4.1  |   |
| International airtime | 918                             | 476    | 487                                       | 2.3  |   |
| Other                 | 153                             | 61     | 98  | 60.7 |   |
|                       | 24,089                          | 11,407 | 13,008                                    | 14.0 |   |

Operating revenue from the mobile segment increased by 14.0%, before inter-segmental eliminations, to R13,008 million (September 30, 2007: R11,407 million), primarily driven by customer growth in all operations and higher data penetration levels. Revenue from Vodacom's operations outside of South Africa increased by 31.2% to R1,650 million (September 30, 2007: R1,258 million) for the six months ended September 30, 2008.

The growth in revenue can largely be attributed to a 13.1% increase in Vodacom's total customers to 35.7 million as of September 30, 2008, (September 30, 2007: 31.6 million), resulting from strong growth in prepaid and contract customers in South Africa and 26.3% growth in customers outside of South Africa. In South Africa, total ARPU increased by 8.2% to R132 (September 30, 2007: R122) for the six months ended September 30, 2008. Contract ARPUs decreased 1.2% to R481 (September 30, 2007: R487) and prepaid ARPUs increased by 11.9% to R66 (September 30, 2007: R59) for the six months ended September 30, 2008.

Data revenue increased by 43.3% and represents 11.5% of mobile revenue during the six months ended September 30, 2008 (September 30, 2007: 9.2%). The growth was largely due to higher penetration levels and more affordable product offerings. Vodacom South Africa transmitted 2.4 billion SMS messages (September 30, 2007: 2.2 billion), over its network during the six months ended September 30, 2008.

Mobile interconnect revenue increased by 10.2% to R2,372 million for the six months ended September 30, 2008 (September 30, 2007: R2,152 million), primarily as a result of the increased number of Vodacom customers and the related increase in incoming traffic.

Equipment sales increased by 4.1% to R1,245 million for the six months ended September 30, 2008 (September 30, 2007: R1,196 million) primarily due to the growth of the customer base. South African handset sales volumes increased by 2.0% to 2.4 million units (September 30, 2007: 2.3 million units) during the six months ended September 30, 2008.

Vodacom's international airtime revenue consists largely of international calls by Vodacom's customers, roaming revenue from Vodacom customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's network. International airtime revenue increased 2.3% to R487 million for the six months ended September 30, 2008 (September 30, 2007: R476 million).

## MOBILE OPERATING EXPENSES

| In ZAR millions  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008  | %    |
|--|---------------------------------|---|-------|------|
|  |                                 |   |       |      |
| Employee expenses  | 1,488                           | 732                                       | 853   | 16.5 |
| Payments to other operators                              | 3,279                           | 1,577                                     | 1,839 | 16.6 |
| SG&A   | 10,271                          | 4,972                                     | 5,559 | 11.8 |
| Services rendered  | 115                             | 54  | 81    | 50.0 |
| Operating leases   | 775                             | 295                                       | 379   | 28.5 |
| Depreciation, amortisation, impairment<br>and write-offs | 1,970                           | 943                                       | 1,109 | 17.6 |
|  | 17,898                          | 8,573                                     | 9,820 | 14.5 |

Mobile operating expenses, before inter-segmental eliminations, increased by 14.5% to R9,820 million for the six months ended September 30, 2008 (September 30, 2007: R8,573 million), primarily due to increased selling and distribution costs, payments to other operators, depreciation, amortisation, impairment and write-offs, employee expenses, operating leases and services rendered.

Mobile employee expenses increased by 16.5% to R853 million for the six months ended September 30, 2008 (September 30, 2007: R732 million), primarily due to a 5.6% increase in the total number of employees to 6,588 mainly as a result of the strengthening of management structures to support the growth in ongoing operations. Annual salary increases and increased provisions for long-term incentive schemes also contributed to the increased employee expenses. Employee productivity has improved in all of Vodacom's operations, as measured by customers per employee, increased by 7.1% to 5,417 customers per employee.

Mobile payments to other operators increased by 16.6% to R1,839 million (September 30, 2007: R1,577 million) in the six months ended September 30, 2008, primarily as a result of increased outgoing traffic terminating on the other mobile networks relative to traffic terminating on the fixed-line network.

Mobile selling, general and administrative expenses increased by 11.8% to R5,559 million for the six months ended September 30, 2008 (September 30, 2007: R4,972 million), primarily due to an increase in selling, distribution and marketing expenses mainly driven by new technologies and enhancing brand presence in all operations to support the growth in South African and other African operations.

Mobile depreciation, amortisation, impairment and write-offs increased by 17.6% to R1,109 million for the six months ended September 30, 2008 (September 30, 2007: R943 million), primarily as a result of increased capital expenditure upgrading and expanding Vodacom's networks.

Telkom's 50% share of Vodacom's profit from operations increased by 12.7% to R3,220 million for the six months ended September 30, 2008 (September 30, 2007: R2,856 million) and the mobile operating profit margin decreased to 24.8% (September 30, 2007: 25.0%). Mobile EBITDA increased by 14.0% to R4,329 million for the six months ended September 30, 2008 (September 30, 2007: R3,799 million) with the EBITDA margin remaining at 33.3%.

## OTHER SEGMENT

The other segment accounted for 5.0% of Group operating revenue (September 30, 2007: 3.3%) (before inter-segmental eliminations) and 0.3% of Group operating profits (September 30, 2007: 3.1%).

## SUMMARY

| In ZAR millions                  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008  | %       |
|----------------------------------|---------------------------------|---|-------|---------|
| Operating revenue                | 1,979                           | 902                                       | 1,506 | 67.0    |
| Operating profit                 | 367                             | 232                                       | 20    | (91.4)  |
| EBITDA                           | 504                             | 322                                       | 188   | (41.6)  |
| Capital expenditure <sup>1</sup> | 1,413                           | 125                                       | 1,818 | 1,354.4 |
| Operating profit margin (%)      | 18.5                            | 25.7                                      | 1.3   | (94.9)  |
| EBITDA margin (%)                | 25.5                            | 35.7                                      | 12.5  | (65.0)  |
| Capex to revenue (%)             | 71.4                            | 13.9                                      | 120.7 | 768.3   |

1. Including spend on intangible assets.

The following table shows the contributions to other operating expenses by each of the four subsidiaries contained in our other segment and the percentage change for the period indicated.

## OTHER OPERATING REVENUE

| In ZAR millions          | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008  | %     |
|--------------------------|---------------------------------|---|-------|-------|
| Multi-Links              | 845                             | 310                                       | 813   | 162.3 |
| TDS Directory Operations | 930                             | 498                                       | 581   | 16.7  |
| Africa Online            | 110                             | 46  | 63    | 37.0  |
| Swiftnet                 | 94                              | 48  | 49    | 2.1   |
|                          | 1,979                           | 902                                       | 1,506 | 67.0  |

Other operating revenue before inter segmental eliminations increased by 67.0% in the six months ended September 30, 2008 to R1,506 million (September 30, 2007: R902 million) primarily driven by the increase in revenue generated by Multi-Links as a result of the increase in number of subscribers.

## OTHER OPERATING EXPENSES

| In ZAR millions  | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %            |
|--|---------------------------------|---|--------------|--------------|
| Employee expenses  | 251                             | 124                                       | <b>156</b>   | 25.8         |
| Payments to other operators                              | 698                             | 137                                       | <b>347</b>   | 153.3        |
| SG&A   | 505                             | 320                                       | <b>798</b>   | 149.4        |
| Services rendered  | 26                              | 9   | <b>17</b>    | 88.9         |
| Operating leases   | 62                              | 16  | <b>35</b>    | 118.8        |
| Depreciation, amortisation, impairment<br>and write-offs | 137                             | 90  | <b>168</b>   | 86.7         |
|  | <b>1,679</b>                    | <b>696</b>                                | <b>1,521</b> | <b>118.5</b> |

Other operating expenses, before inter-segmental eliminations, increased by 118.5% to R1,521 million (September 30, 2007: R696 million) in the six months ended September 30, 2008 primarily due to the increase in operating expenses of Multi-Links.

The following table shows the contributions to other operating expenses by each of the four subsidiaries contained in our other segment and the percentage change for the period indicated.

| In ZAR millions          | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %            |
|--------------------------|---------------------------------|---|--------------|--------------|
| Multi-Links              | 942                             | 319                                       | <b>1,081</b> | 238.9        |
| TDS Directory Operations | 530                             | 282                                       | <b>321</b>   | 13.8         |
| Africa Online            | 118                             | 53  | <b>71</b>    | 34.0         |
| Swiftnet                 | 89                              | 42  | <b>48</b>    | 14.3         |
|                          | <b>1,679</b>                    | <b>696</b>                                | <b>1,521</b> | <b>118.5</b> |

## 8. Employees

### FIXED-LINE

|                    | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>   | %     |
|--------------------|---------------------------------|---|---------------|-------|
| Telkom Company     | 24,879                          | 25,570                                    | <b>24,075</b> | (5.9) |
| Lines per employee | 182                             | 181                                       | <b>187</b>    | 3.3   |

## MOBILE EMPLOYEES

|                                       | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %    |
|---------------------------------------|---------------------------------|---|--------------|------|
| South Africa <sup>1,2</sup>           | 4,849                           | 4,716                                     | <b>4,979</b> | 5.6  |
| Customers per employee <sup>1,2</sup> | 5,119                           | 4,940                                     | <b>5,070</b> | 2.6  |
| Other African countries <sup>2</sup>  | 1,992                           | 1,524                                     | <b>1,609</b> | 5.6  |
| Customers per employee <sup>2</sup>   | 4,605                           | 5,425                                     | <b>6,491</b> | 19.6 |
| Vodacom Group <sup>1,2</sup>          | 6,841                           | 6,240                                     | <b>6,588</b> | 5.6  |
| Customers per employee <sup>1,2</sup> | 4,969                           | 5,058                                     | <b>5,417</b> | 7.1  |

1. Includes Holding Company and Mauritius employees.

2. Includes Agency temporary employees.

## OTHER

|                          | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | <b>2008</b>  | %      |
|--------------------------|---------------------------------|---|--------------|--------|
| Swiftnet                 | 85                              | 71  | <b>86</b>    | 21.1   |
| TDS Directory Operations | 610                             | 622                                       | <b>524</b>   | (15.8) |
| Africa Online            | 379                             | 351                                       | <b>357</b>   | 1.7    |
| Multi-Links              | 680                             | 673                                       | <b>1,006</b> | 49.5   |

## 9. Condensed consolidated interim statements

### REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF TELKOM SA LIMITED

#### Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Telkom SA Limited as at September 30, 2008 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

#### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the financial position of the entity as at September 30, 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

*Ernst & Young Inc.*

Registered Auditor  
November 14, 2008  
Pretoria

## Condensed consolidated interim income statement

for the six months ended September 30, 2008

|   | Notes | Audited*<br>March 31,<br>2008<br>Rm | Reviewed*<br>September 30,<br>2007<br>Rm | Reviewed<br>September 30,<br>2008<br>Rm |
|---|-------|-------------------------------------|--|---|
| <b>Total revenue</b>                                  | 3.1   | 56,851                              | 27,538                                   | <b>30,261</b>                           |
| <b>Operating revenue</b>                              | 3.2   | 56,271                              | 27,227                                   | <b>29,884</b>                           |
| Other income  |       | 534                                 | 204                                      | <b>246</b>                              |
| <b>Operating expenses</b>                             |       | 42,186                              | 20,067                                   | <b>23,454</b>                           |
| Employee expenses                                     | 4.1   | 9,131                               | 4,295                                    | <b>5,087</b>                            |
| Payments to other operators                           | 4.2   | 9,169                               | 4,220                                    | <b>4,972</b>                            |
| Selling, general and administrative expenses          | 4.3   | 14,382                              | 6,908                                    | <b>8,302</b>                            |
| Service fees  | 4.4   | 2,552                               | 1,252                                    | <b>1,310</b>                            |
| Operating leases                                      | 4.5   | 828                                 | 491                                      | <b>477</b>                              |
| Depreciation, amortisation, impairment and write-offs | 4.6   | 6,124                               | 2,901                                    | <b>3,306</b>                            |
| <b>Operating profit</b>                               |       | 14,619                              | 7,364                                    | <b>6,676</b>                            |
| <b>Investment income</b>                              |       | 197                                 | 130                                      | <b>136</b>                              |
| <b>Finance charges and fair value movement</b>        |       | 1,797                               | 972                                      | <b>1,036</b>                            |
| Interest  |       | 1,879                               | 867                                      | <b>1,258</b>                            |
| Foreign exchange and fair value movement              |       | (82)                                | 105                                      | <b>(222)</b>                            |
| <b>Profit before taxation</b>                         |       | 13,019                              | 6,522                                    | <b>5,776</b>                            |
| Taxation  | 5     | 4,705                               | 2,678                                    | <b>2,009</b>                            |
| Loss for the period from disposal group held for sale | 14    | 142                                 | 51                                       | <b>82</b>                               |
| <b>Profit for the year/period</b>                     |       | 8,172                               | 3,793                                    | <b>3,685</b>                            |
| <b>Attributable to:</b>                               |       |                                     |  |   |
| <b>Equity holders of Telkom</b>                       |       | 7,975                               | 3,700                                    | <b>3,622</b>                            |
| <b>Minority interest</b>                              |       | 197                                 | 93                                       | <b>63</b>                               |
|   |       | 8,172                               | 3,793                                    | <b>3,685</b>                            |
| <b>Basic earnings per share (cents)</b>               | 7     | 1,565.0                             | 724.3                                    | <b>723.9</b>                            |
| <b>Diluted earnings per share (cents)</b>             | 7     | 1,546.9                             | 719.5                                    | <b>716.1</b>                            |
| <b>Dividend per share (cents)</b>                     | 7     | 1,100.0                             | 1,100.0                                  | <b>660.0</b>                            |

\*The amounts have been adjusted to disclose the effect of Disposal group held for sale as disclosed in note 14.

## Condensed consolidated interim balance sheet

at September 30, 2008

|  | Notes | Audited*<br>March 31,<br>2008<br>Rm | Reviewed*<br>September 30,<br>2007<br>Rm | Reviewed<br>September 30,<br>2008<br>Rm |
|--|-------|-------------------------------------|--|---|
| <b>ASSETS</b>  |       |                                     |  |   |
| <b>Non-current assets</b>                              |       |                                     |  |   |
| Property, plant and equipment                          | 9     | 57,744                              | 52,231                                   | 60,225                                  |
| Intangible assets                                      | 10    | 46,815                              | 42,743                                   | 49,024                                  |
| Investments  |       | 8,451                               | 7,391                                    | 8,456                                   |
| Deferred expenses                                      |       | 1,448                               | 1,425                                    | 1,590                                   |
| Finance lease receivables                              |       | 221                                 | 248                                      | 197                                     |
| Deferred taxation                                      | 11    | 206                                 | 172                                      | 270                                     |
|  |       | 603                                 | 252                                      | 688                                     |
| <b>Current assets</b>                                  |       |                                     |  |   |
| Short-term investments                                 |       | 12,586                              | 11,310                                   | 12,449                                  |
| Inventories  | 12    | 51                                  | 79                                       | 56                                      |
| Income tax receivable                                  |       | 1,287                               | 1,541                                    | 1,755                                   |
| Current portion of deferred expenses                   |       | 9                                   | 18                                       | 100                                     |
| Current portion of finance lease receivables           |       | 362                                 | 324                                      | 368                                     |
| Trade and other receivables                            |       | 166                                 | 121                                      | 179                                     |
| Other financial assets                                 |       | 8,969                               | 8,235                                    | 9,164                                   |
| Cash and cash equivalents                              | 13    | 614                                 | 214                                      | 122                                     |
| Disposal group held for sale – assets                  | 14    | 1,128                               | 778                                      | 705                                     |
|  |       | 42                                  | 54                                       | 53                                      |
| <b>Total assets</b>                                    |       | 70,372                              | 63,595                                   | 72,727                                  |
| <b>EQUITY AND LIABILITIES</b>                          |       |                                     |  |   |
| <b>Equity attributable to equity holders of Telkom</b> |       |                                     |  |   |
| Share capital and premium                              | 15    | 32,815                              | 29,106                                   | 33,635                                  |
| Treasury shares  | 16    | 5,208                               | 5,329                                    | 5,208                                   |
| Share-based compensation reserve                       | 17    | (1,638)                             | (1,638)                                  | (1,522)                                 |
| Non-distributable reserves                             |       | 643                                 | 147                                      | 938                                     |
| Retained earnings                                      |       | 1,292                               | 712                                      | 1,341                                   |
| Minority interest                                      |       | 27,310                              | 24,556                                   | 27,670                                  |
|  |       | 522                                 | 469                                      | 578                                     |
| <b>Total equity</b>                                    |       | 33,337                              | 29,575                                   | 34,213                                  |
| <b>Non-current liabilities</b>                         |       |                                     |  |   |
| Interest-bearing debt                                  | 18    | 15,081                              | 9,838                                    | 15,739                                  |
| Other financial liabilities                            |       | 9,395                               | 4,501                                    | 10,692                                  |
| Provisions   |       | 919                                 | 707                                      | —                                       |
| Deferred revenue                                       |       | 1,660                               | 1,551                                    | 1,846                                   |
| Deferred taxation                                      | 11    | 1,128                               | 1,053                                    | 1,141                                   |
|  |       | 1,979                               | 2,026                                    | 2,060                                   |
| <b>Current liabilities</b>                             |       |                                     |  |   |
| Trade and other payables                               |       | 21,873                              | 24,167                                   | 22,715                                  |
| Shareholders for dividend                              | 6     | 8,740                               | 6,720                                    | 8,117                                   |
| Current portion of interest-bearing debt               | 18    | 20                                  | 21                                       | 24                                      |
| Current portion of provisions                          |       | 6,330                               | 10,962                                   | 6,767                                   |
| Current portion of deferred revenue                    |       | 2,154                               | 1,586                                    | 1,762                                   |
| Income tax payable                                     |       | 2,593                               | 2,202                                    | 2,580                                   |
| Other financial liabilities                            |       | 323                                 | 122                                      | 475                                     |
| Credit facilities utilised                             | 13    | 371                                 | 251                                      | 1,108                                   |
| Disposal group held for sale – liabilities             | 14    | 1,342                               | 2,303                                    | 1,882                                   |
|  |       | 81                                  | 15                                       | 60                                      |
| <b>Total liabilities</b>                               |       | 37,035                              | 34,020                                   | 38,514                                  |
| <b>Total equity and liabilities</b>                    |       | 70,372                              | 63,595                                   | 72,727                                  |

\*The amounts have been adjusted to disclose the effect of Disposal group held for sale as disclosed in note 14.

## Condensed consolidated interim statement of changes in equity

for the six months ended September 30, 2008

|   | Attributable to equity holders of Telkom |                       |
|---|--|-----------------------|
|   | Share capital<br>Rm                      | Treasury shares<br>Rm |
| <b>Balance at April 1, 2007</b>                                 | 5,329                                    | (1,774)               |
| Total recognised income and expense                             |  |                       |
| Profit for the period   |  |                       |
| Foreign currency translation reserve (net of tax of R2 million) |  |                       |
| Dividend declared (refer to note 6)                             |  |                       |
| Transfer to non-distributable reserves                          |  |                       |
| Increase in Share-based compensation reserve (refer to note 17) |  |                       |
| Shares vested and re-issued (refer to notes 16 and 17)          |  | 136                   |
| Acquisition of subsidiaries and minorities                      |  |                       |
| Minority put option (refer to note 19)                          |  |                       |
| <b>Balance at September 30, 2007</b>                            | 5,329                                    | (1,638)               |
| <b>Balance at April 1, 2007</b>                                 | 5,329                                    | (1,774)               |
| Total recognised income and expense                             |  |                       |
| Profit for the year   |  |                       |
| Revaluation of available-for-sale (net of tax of R1 million)    |  |                       |
| Foreign currency translation reserve (net of tax of R6 million) |  |                       |
| Dividend declared (refer to note 6)                             |  |                       |
| Transfer to non-distributable reserves                          |  |                       |
| Increase in Share-based compensation reserve (refer to note 17) |  |                       |
| Shares vested and re-issued (refer to notes 16 and 17)          |  | 136                   |
| Acquisition of subsidiaries and minorities                      |  |                       |
| Shares bought back and cancelled                                |  | (121)                 |
| Minority put option (refer to note 19)                          |  |                       |
| <b>Balance at March 31, 2008</b>                                | 5,208                                    | (1,638)               |
| Total recognised income and expense                             |  |                       |
| Profit for the period   |  |                       |
| Foreign currency translation reserve (net of tax of R2 million) |  |                       |
| Dividend declared (refer to note 6)                             |  |                       |
| Transfer from non-distributable reserves                        |  |                       |
| Reversal of at acquisition contingent liability                 |  |                       |
| Increase in Share-based compensation reserve (refer to note 17) |  |                       |
| Shares vested and re-issued (refer to notes 16 and 17)          |  | 116                   |
| <b>Balance at September 30, 2008</b>                            | 5,208                                    | (1,522)               |

## Attributable to equity holders of Telkom

| Share-based<br>compensation<br>reserve<br>Rm | Non-<br>distributable<br>reserves<br>Rm | Retained<br>earnings<br>Rm | Total<br>Rm        | Minority<br>interest<br>Rm | Total<br>equity<br>Rm |
|--|---|----------------------------|--------------------|----------------------------|-----------------------|
| 257  | 1,413<br>(56)                           | 26,499<br>3,700            | 31,724<br>3,644    | 284<br>87                  | 32,008<br>3,731       |
|  |   | 3,700<br>(56)              | 3,700<br>(56)      | 93<br>(6)                  | 3,793<br>(62)         |
|  | 16                                      | (5,627)<br>(16)            | (5,627)            | —                          | (5,627)<br>—          |
| 26<br>(136)                                  |   |                            | —<br>26            |                            | —<br>26               |
|  |   |                            | —<br>98            |                            | —<br>98               |
|  |   | (661)                      | (661)              |                            | (661)                 |
| 147  | 712                                     | 24,556                     | 29,106             | 469                        | 29,575                |
| 257  | 1,413<br>529                            | 26,499<br>7,975            | 31,724<br>8,504    | 284<br>226                 | 32,008<br>8,730       |
|  | 8<br>521                                | 7,975                      | 7,975              | 197                        | 8,172<br>8            |
|  | 11                                      | (5,627)<br>(11)            | (5,627)            | (65)                       | (5,692)<br>—          |
| 522<br>(136)                                 |   |                            | —<br>522           |                            | —<br>522              |
|  |   |                            | —<br>77            |                            | —<br>77               |
|  |   | (1,526)                    | (1,647)<br>(661)   |                            | (1,647)<br>(661)      |
| 643  | 1,292<br>63                             | 27,310<br>3,622            | 32,815<br>3,685    | 522<br>82                  | 33,337<br>3,767       |
|  | 63                                      | 3,622                      | 3,622              | 63                         | 3,685<br>82           |
|  | (14)                                    | (3,306)<br>14<br>30        | (3,306)<br>—<br>30 | (26)                       | (3,332)<br>—<br>30    |
| 411<br>(116)                                 |   |                            | 411<br>—           |                            | 411<br>—              |
| 938  | 1,341                                   | 27,670                     | 33,635             | 578                        | 34,213                |

## Condensed consolidated interim cash flow statement

for the six months ended September 30, 2008

|   | Notes | Audited<br>March 31,<br>2008<br>Rm | Reviewed<br>September 30,<br>2007<br>Rm | Reviewed<br>September 30,<br>2008<br>Rm |
|---|-------|------------------------------------|---|---|
| <b>Cash flows from operating activities</b>                                 |       | 10,603                             | 683                                     | 3,033                                   |
| Cash receipts from customers  |       | 55,627                             | 27,048                                  | 29,710                                  |
| Cash paid to suppliers and employees  |       | (34,371)                           | (18,735)                                | (21,360)                                |
| Cash generated from operations  |       | 21,256                             | 8,313                                   | 8,350                                   |
| Interest received   |       | 433                                | 251                                     | 299                                     |
| Finance charges paid  |       | (1,077)                            | (128)                                   | (337)                                   |
| Taxation paid   |       | (4,277)                            | (2,041)                                 | (1,951)                                 |
| Cash generated from operations before dividend paid                         |       | 16,335                             | 6,395                                   | 6,361                                   |
| Dividend paid   | 6     | (5,732)                            | (5,712)                                 | (3,328)                                 |
| <b>Cash flows from investing activities</b>                                 |       | (14,106)                           | (7,028)                                 | (5,262)                                 |
| Proceeds on disposal of property, plant and equipment and intangible assets |       | 169                                | 33                                      | 23                                      |
| Proceeds on disposal of investment  |       | 8                                  | 8                                       | —                                       |
| Additions to property, plant and equipment and intangible assets            |       | (11,657)                           | (4,533)                                 | (5,131)                                 |
| Acquisition of subsidiaries and minorities                                  |       | (2,462)                            | (2,480)                                 | —                                       |
| Additions to other investments  |       | (164)                              | (56)                                    | (154)                                   |
| <b>Cash flows from financing activities</b>                                 |       | 2,943                              | 4,520                                   | 1,254                                   |
| Loans raised  |       | 23,877                             | 13,194                                  | 10,105                                  |
| Loans repaid  |       | (19,315)                           | (8,694)                                 | (9,127)                                 |
| Shares bought back and cancelled  |       | (1,647)                            | —                                       | —                                       |
| Finance lease capital repaid  |       | (61)                               | (26)                                    | (14)                                    |
| Decrease in net financial assets  |       | 89                                 | 46                                      | 290                                     |
| <b>Net decrease in cash and cash equivalents</b>                            |       | (560)                              | (1,825)                                 | (975)                                   |
| Net cash and cash equivalents at beginning of year                          |       | 308                                | 308                                     | (208)                                   |
| Effect of foreign exchange rate differences                                 |       | 44                                 | (8)                                     | 6                                       |
| <b>Net cash and cash equivalents at end of year/period</b>                  | 13    | (208)                              | (1,525)                                 | (1,177)                                 |

## **Notes to the condensed consolidated interim financial statements**

for the six months ended September 30, 2008

### **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, its subsidiaries and joint ventures ('the Group') is to supply telecommunication, broadcasting, multimedia, technology, information and other related information technology services to the general public, as well as mobile communication services through the Vodacom Group (Proprietary) Limited ('Vodacom') in South Africa and certain other African countries. The Group's services and products include:

- fixed-line subscription and connection services to postpaid, prepaid and private payphone customers using PSTN lines, including ISDN lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to postpaid, prepaid and payphone customers, including local, long distance, fixed-to-mobile, international outgoing and international voice-over-internet protocol traffic services;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
- fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL services, packet-based services, managed data networking services and internet access and related information technology services;
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services;
- directory services, through our TDS Directory Operations Group, wireless data services, through our Swiftnet (Proprietary) Limited subsidiary, internet services outside South Africa, through our Africa Online Limited subsidiary and information, communication and telecommunication operating services in Nigeria, through Multi-Links Telecommunications Limited subsidiary; and
- mobile communications services, including voice services, data services, value-added services and handset sales through Vodacom.

The condensed consolidated interim financial statements of the Group for the six months ended September 30, 2008 were authorised for issue in accordance with a resolution of the directors on November 14, 2008.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

### **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 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, 2008.

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**

The Group's significant accounting policies and methods of computation are consistent with those applied in the previous financial year except for the following:

- the Group has adopted IFRIC12 service concession arrangements
- the Group has adopted IFRIC14 the limit on a defined benefit asset, minimum funding requirements and their interaction.

#### ***IFRIC12 Service Concession Arrangements***

The interpretation is effective for annual periods beginning on or after January 1, 2008. The interpretation defines service concession arrangements as arrangements whereby a government or other body grants contracts for the supply of public services such as roads, energy distributions, prisons or hospitals to private operators. The interpretation draws a distinction between two types of service concession arrangements (1) where the operator receives a financial asset, specifically an unconditional right to receive cash or another financial asset from the government in return for constructing or upgrading the public sector asset, and (2) where the operator receives an intangible asset; a right to charge for the use of the public sector asset that it constructs or upgrades.

The operator measures both the financial asset and the intangible asset at fair value. The operator of a service concession arrangement measures revenue in accordance with IAS11 and IAS18 for the service it performs.

The adoption of the interpretation does not have an impact on the Group's financial statements.

#### ***IFRIC14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

The interpretation is effective for annual periods beginning on or after January 1, 2008 and addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS19 on the measurement of the defined benefit asset. When determining the limit on a defined benefit asset in accordance with IAS19.58, the interpretation requires an entity to measure any economic benefits available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. The interpretation states that the employer only needs to have an unconditional right to use the surplus at some point during the life of the plan or on its wind up in order for a surplus to be recognised. The Telkom Pension fund meets the interpretation criteria for recognition of the asset, since it has an unconditional right to use the surplus.

The adoption of the interpretation does not have an impact on the Group's financial statements since the Group has always recognised an asset.

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
| <b>3. REVENUE**</b>  |                         |                             |                             |
| <b>3.1 Total revenue</b>   | 56,851                  | 27,538                      | <b>30,261</b>               |
| Operating revenue  | 56,271                  | 27,227                      | <b>29,884</b>               |
| Other income (excluding profit on disposal of property, plant and equipment and investments) | 383                     | 181                         | <b>241</b>                  |
| Investment income  | 197                     | 130                         | <b>136</b>                  |
| <b>3.2 Operating revenue</b>   | 56,271                  | 27,227                      | <b>29,884</b>               |
| Fixed-line   | 32,572                  | 16,108                      | <b>16,565</b>               |
| Mobile   | 24,089                  | 11,407                      | <b>13,008</b>               |
| Other  | 1,993                   | 902                         | <b>1,517</b>                |
| Disposal group held for sale   | (14)                    | —                           | <b>(11)</b>                 |
| Eliminations   | (2,369)                 | (1,190)                     | <b>(1,195)</b>              |
| Fixed-line   | 32,572                  | 16,108                      | <b>16,565</b>               |
| Subscriptions, connections and other usage   | 6,330                   | 3,118                       | <b>3,233</b>                |
| Traffic  | 15,950                  | 8,077                       | <b>7,833</b>                |
| Domestic (local and long distance)   | 6,328                   | 3,344                       | <b>2,929</b>                |
| Fixed-to-mobile  | 7,557                   | 3,794                       | <b>3,803</b>                |
| International (outgoing)   | 986                     | 498                         | <b>481</b>                  |
| Subscription based calling plans*  | 1,079                   | 441                         | <b>620</b>                  |
| Interconnection  | 1,757                   | 833                         | <b>956</b>                  |
| Data   | 8,308                   | 3,975                       | <b>4,459</b>                |
| Sundry revenue   | 227                     | 105                         | <b>84</b>                   |

\*At March 31, 2008 the Group reclassified calling plans from domestic traffic into a separate revenue line item, to disclose revenue earned from subscription based calling plans. The September 30, 2007 amounts for fixed-line have been reclassified accordingly.

\*\*Refer to note 14 for Disposal group held for sale.

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>4. OPERATING EXPENSES**</b>  |                         |                             |                             |
| Operating expenses comprise:  |                         |                             |                             |
| <b>4.1 Employee expenses</b>  | 9,131                   | 4,295                       | <b>5,087</b>                |
| Salaries and wages  | 7,115                   | 3,577                       | <b>3,752</b>                |
| Medical aid contributions   | 416                     | 203                         | <b>212</b>                  |
| Retirement contributions  | 593                     | 297                         | <b>354</b>                  |
| Post-retirement benefits  | 310                     | 154                         | <b>262</b>                  |
| Share-based compensation expense<br>(refer to note 17)  | 522                     | 26                          | <b>411</b>                  |
| Other benefits  | 976                     | 420                         | <b>445</b>                  |
| Employee expenses capitalised   | (801)                   | (382)                       | <b>(349)</b>                |
| <i>Other benefits</i>   |                         |                             |                             |
| Other benefits include skills development, annual leave, performance incentive and service bonuses.                 |                         |                             |                             |
| <b>4.2 Payments to other operators</b>  | 9,169                   | 4,220                       | <b>4,972</b>                |
| Payments to other network operators consist of expenses in respect of interconnection with other network operators. |                         |                             |                             |
| <b>4.3 Selling, general and administrative expenses</b>   | 14,382                  | 6,908                       | <b>8,302</b>                |
| Selling and administrative expenses   | 10,327                  | 4,862                       | <b>6,069</b>                |
| Maintenance   | 2,508                   | 1,300                       | <b>1,349</b>                |
| Marketing   | 1,247                   | 638                         | <b>729</b>                  |
| Bad debts   | 300                     | 108                         | <b>155</b>                  |
| <b>4.4 Service fees</b>   | 2,552                   | 1,252                       | <b>1,310</b>                |
| Facilities and property management  | 1,228                   | 610                         | <b>617</b>                  |
| Consultancy services  | 273                     | 117                         | <b>124</b>                  |
| Security and other  | 982                     | 506                         | <b>552</b>                  |
| Auditors' remuneration  | 69                      | 19                          | <b>17</b>                   |
| <b>4.5 Operating leases</b>   | 828                     | 491                         | <b>477</b>                  |
| Land and buildings  | 162                     | 166                         | <b>109</b>                  |
| Transmission and data lines   | 187                     | 63                          | <b>123</b>                  |
| Equipment   | 48                      | 28                          | <b>19</b>                   |
| Vehicles  | 431                     | 234                         | <b>226</b>                  |

## Notes to the condensed consolidated interim financial statements (continued)

for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### 4. OPERATING EXPENSES\*\* (continued)

#### 4.6 Depreciation, amortisation, impairment and write-offs

Depreciation of property, plant and equipment  
 Amortisation of intangible assets  
 Impairment of property, plant and equipment and intangible assets  
 Reversal of impairment of property, plant and equipment  
 Write-offs of property, plant and equipment and intangible assets

|       |       |       |
|-------|-------|-------|
| 6,124 | 2,901 | 3,306 |
| 4,853 | 2,377 | 2,747 |
| 742   | 368   | 427   |
| 244   | 89    | 45    |
| —     | (9)   | —     |
| 285   | 76    | 87    |

Due to the competitive and economic environment in which VM, S.A.R.L operates in Mozambique and the delays in fully implementing the expansion strategy in Africa Online Limited, the Group assessed the assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of VM was based on the fair value less cost of disposal and the recoverable amount of Africa Online was based on value in use. The amount with which the carrying amount exceeded the recoverable amount is recognised as an impairment loss. The prior year reversal of the impairment loss related to an increase in the fair value of infrastructure assets due to exchange rate fluctuations.

\*\*Refer to note 14 for Disposal group held for sale.

### 5. TAXATION\*\*

South African normal company taxation  
 Deferred taxation  
 Secondary Taxation on Companies ('STC')  
 Foreign taxation

|       |       |       |
|-------|-------|-------|
| 4,705 | 2,678 | 2,009 |
| 3,757 | 1,681 | 1,577 |
| 219   | 617   | (13)  |
| 678   | 363   | 313   |
| 51    | 17    | 132   |

The decrease in deferred taxation and STC was mainly due to the lower dividend declared which resulted in a lower STC charge.

\*\*Refer to note 14 for Disposal group held for sale.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>6. DIVIDEND PAID</b>                 | (5,732)                 | (5,712)                     | (3,328)                     |
| Dividends payable at beginning of year  | (15)                    | (15)                        | (20)                        |
| Declared during the year/period:        |                         |                             |                             |
| Dividends on ordinary shares            | (5,627)                 | (5,627)                     | (3,306)                     |
| Final dividend for 2007: 600 cents      | (3,069)                 | (3,069)                     | —                           |
| Special dividend for 2007: 500 cents    | (2,558)                 | (2,558)                     | —                           |
| Final dividend for 2008: 660 cents      | —                       | —                           | (3,306)                     |
| Dividends paid to minority shareholders | (110)                   | (91)                        | (26)                        |
| Dividends payable at end of year/period | 20                      | 21                          | 24                          |

## **7. EARNINGS AND DIVIDEND PER SHARE**

**Basic earnings per share (cents)** 1,565.0 724.3 723.9

The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the period of R3,622 million (September 30, 2007: R3,700 million; March 31, 2008: R7,975 million) and 500,375,818 (September 30, 2007: 510,865,276; March 31, 2008: 509,595,092) weighted average number of ordinary shares in issue.

**Diluted earnings per share (cents)** 1,546.9 719.5 716.1

The calculation of diluted earnings per share is based on earnings for the year of R3,622 million (September 30, 2007: R3,700 million; March 31, 2008: R7,975 million) and 505,773,827 diluted weighted average number of ordinary shares (September 30, 2007: 514,222,319; March 31, 2008: 515,541,966). The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.

**Headline earnings per share (cents)\*** 1,634.8 742.3 745.2

The calculation of headline earnings per share is based on headline earnings of R3,729 million (September 30, 2007: R3,792 million; March 31, 2008: R8,331 million) and 500,375,818 (September 30, 2007: 510,865,276; March 31, 2008: 509,595,092) weighted average number of ordinary shares in issue.

## Notes to the condensed consolidated interim financial statements (continued)

for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### 7. EARNINGS AND DIVIDEND PER SHARE (continued)

|  |         |       |       |
|--|---------|-------|-------|
| Diluted headline earnings per share (cents)* | 1,616.0 | 737.4 | 737.3 |
|--|---------|-------|-------|

The calculation of diluted headline earnings per share is based on headline earnings of R3,729 million (September 30, 2007: R3,792 million; March 31, 2008: R8,331 million) and 505,773,827 (September 30, 2007: 514,222,319; March 31, 2008: 515,541,966) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.

#### Reconciliation of weighted average number of ordinary shares:

|   |              |              |              |
|---|--------------|--------------|--------------|
| Ordinary shares in issue (refer to note 15)   | 532,855,530  | 532,855,530  | 520,784,186  |
| Weighted average number of shares bought back | (1,594,241)  | —            | —            |
| Weighted average number of treasury shares    | (21,666,197) | (21,990,254) | (20,408,368) |
| Weighted average number of shares outstanding | 509,595,092  | 510,865,276  | 500,375,818  |

#### Reconciliation between earnings and headline earnings:

|   |       |       |       |
|---|-------|-------|-------|
| Earnings as reported  | 7,975 | 3,700 | 3,622 |
| Adjustments:  |       |       |       |
| Profit on disposal of investment  | (4)   | (4)   | —     |
| Profit on disposal of property, plant and equipment and intangible assets | (147) | (19)  | (7)   |
| Impairment of property, plant and equipment and intangible assets         | 244   | 89    | 45    |
| Reversal of impairment of property, plant and equipment                   | —     | (9)   | —     |
| Write-offs of property, plant and equipment                               | 285   | 76    | 87    |
| Tax effects   | (26)  | (41)  | (18)  |
| Minority interest   | 4     | —     | —     |
| Headline earnings   | 8,331 | 3,792 | 3,729 |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
| <b>7. EARNINGS AND DIVIDEND PER SHARE (continued)</b>  |                         |                             |                             |
| <b>Reconciliation of diluted weighted average number of ordinary shares:</b>   |                         |                             |                             |
| Weighted average number of shares outstanding  | 509,595,090             | 510,865,276                 | <b>500,375,818</b>          |
| Expected future vesting of shares  | 5,946,876               | 3,357,043                   | <b>5,398,009</b>            |
| Diluted weighted average number of shares outstanding  | 515,541,966             | 514,222,319                 | <b>505,773,827</b>          |
| <b>Dividend per share (cents)</b>  | <b>1,100.0</b>          | <b>1,100.0</b>              | <b>660.0</b>                |
| The calculation of dividend per share is based on dividends of R3,306 million (September 30, 2007: R5,627 million; March 31, 2008: R5,627 million) and 500,941,029 (September 30, 2007: 511,513,237; March 31, 2008: 511,513,237) 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. |                         |                             |                             |
| <i>*The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular issued in this regard.</i>  |                         |                             |                             |
| <b>8. NET ASSET VALUE PER SHARE (CENTS)</b>  | 6,570.3                 | 5,690.2                     | <b>6,721.9</b>              |
| The calculation of net asset value per share is based on net assets of R33,635 million (September 30, 2007: R29,106 million; March 31, 2008: R32,815 million) and 500,375,818 (September 30, 2007: 511,513,237; March 31, 2008: 499,441,985) number of ordinary shares outstanding.  |                         |                             |                             |

**Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>9. PROPERTY, PLANT AND EQUIPMENT</b>   |                         |                             |                             |
| Additions   | 10,108                  | 3,580                       | 5,585                       |
| Disposals   | (122)                   | (19)                        | (57)                        |
| A major portion of this capital expenditure relates to the expansion of existing networks and services across the Telkom Group. An extensive build program with focus on Next Generation Network technologies at Telkom has resulted in an increase in property, plant and equipment additions which is expected to continue over the next few years. |                         |                             |                             |
| Included in additions for Telkom is an amount of R178 million (September 30, 2007: R26 million; March 31, 2008: R31 million) that refers to finance leases and site restoration costs.  |                         |                             |                             |
| <b>10. INTANGIBLE ASSETS</b>  |                         |                             |                             |
| Additions   | 3,720                   | 2,820                       | 587                         |
| Included in additions for September 30, 2007 and March 31, 2008 are intangibles relating to business combinations.  |                         |                             |                             |
| There were no disposals of intangible assets during the six months ended September 30, 2008 and 2007 and the year ended March 31, 2008.   |                         |                             |                             |
| <b>11. DEFERRED TAXATION</b>  |                         |                             |                             |
| Deferred tax assets   | 603                     | 252                         | 688                         |
| Deferred tax liabilities  | (1,979)                 | (2,026)                     | (2,060)                     |
| Unutilised Secondary Taxation on Companies ('STC') credits  | 1,830                   | 265                         | 1,603                       |
| The deferred tax asset represents STC credits on past dividends received that are available to be utilised against dividends declared. The tax asset will be utilised when dividends are declared.  |                         |                             |                             |
| <b>12. INVENTORIES</b>  |                         |                             |                             |
| Gross inventories   | 1,287                   | 1,541                       | 1,755                       |
| Write-down of inventories to net realisable value   | 1,535<br>(248)          | 1,732<br>(191)              | 2,007<br>(252)              |
| The increase of inventory levels since March 2008 was mainly due to the roll-out of the Next Generation Network, a higher demand on Telkom internet products and an increase in cable stock.  |                         |                             |                             |
| The increase in merchandise in the current period is due to the accelerated acquisition of merchandise to limit the Group's exposure to foreign currency fluctuations.  |                         |                             |                             |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>13. NET CASH AND CASH EQUIVALENTS</b>                      | <b>(208)</b>            | <b>(1,525)</b>              | <b>(1,177)</b>              |
| Cash shown as current assets                                  | 1,134                   | 778                         | <b>705</b>                  |
| Cash and bank balances  | 664                     | 778                         | <b>684</b>                  |
| Short-term deposits   | 470                     | —                           | <b>21</b>                   |
| Credit facilities utilised                                    | (1,342)                 | (2,303)                     | <b>(1,882)</b>              |
| Disposal group held for sale –<br>Telkom Media included above | 6                       | —                           | <b>1</b>                    |
| <b>Undrawn borrowing facilities</b>                           | <b>7,565</b>            | <b>7,864</b>                | <b>6,819</b>                |

The undrawn borrowing facilities are unsecured, when drawn bear interest at a rate linked to the prime interest rate, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity. At September 30, 2008 R3,000 million of these undrawn facilities were committed by Telkom.

**Borrowing powers**

To borrow money, the directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright as a security or debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants of the TL20 loan as well as the conditions and covenants of the Bridge Loan facility.

## Notes to the condensed consolidated interim financial statements (continued)

for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### 14. DISPOSAL GROUP HELD FOR SALE

The assets and liabilities for Telkom Media have been presented as held for sale following a decision made by the Telkom SA board in March 2008 to substantially reduce its investment in Telkom Media.

Subsequent to period end, interest was expressed in the discontinued operation from a third party. Terms are currently being negotiated.

The results of discontinued operations, and the result recognised on the re-measurement of assets or disposal group is as follows:

Revenue

Expenses

Loss before taxation of disposal group held for sale

Taxation

Loss after taxation of disposal group held for sale

The net cash flows attributable to the operating, investing and financing activities of disposal group

Operating cash flows

Investing cash flows

Financing cash flows

Total cash flows

Assets

Liabilities

|          |              |             |
|----------|--------------|-------------|
|          | 14           | —           |
| Revenue  | (157)        | (51)        |
| Expenses | (143)        | (51)        |
|          | 1            | —           |
|          | <b>(142)</b> | <b>(51)</b> |
|          |              | <b>(82)</b> |

|                      |       |            |
|----------------------|-------|------------|
|                      | (95)  | (34)       |
| Operating cash flows | (218) | (41)       |
| Investing cash flows | 319   | 75         |
| Financing cash flows |       |            |
|                      | 6     | —          |
|                      |       | <b>(4)</b> |

|             |           |           |
|-------------|-----------|-----------|
|             | 42        | 54        |
| Assets      | 81        | 15        |
| Liabilities |           |           |
|             | <b>60</b> | <b>53</b> |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
| <b>15. SHARE CAPITAL AND PREMIUM</b>   |                         |                             |                             |
| Issued and fully paid  | 5,208                   | 5,329                       | <b>5,208</b>                |
| 520,784,184 (September 30, 2007: 532,855,528;<br>March 31, 2008: 520,784,184) ordinary shares<br>of R10 each | 5,208                   | 5,329                       | <b>5,208</b>                |
| 1 (September 30, 2007: 1; March 31, 2008: 1)<br>Class A ordinary share of R10                                | —                       | —                           | —                           |
| 1 (September 30, 2007: 1; March 31, 2008: 1)<br>Class B ordinary share of R10                                | —                       | —                           | —                           |

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

|   | Number of<br>shares | Number of<br>shares | Number of<br>shares |
|---|---------------------|---------------------|---------------------|
| Shares in issue at beginning of year/period | 532,855,530         | 532,855,530         | <b>520,784,186</b>  |
| Shares bought back and cancelled            | (12,071,344)        | —                   | —                   |
| Shares in issue at end of year/period       | 520,784,186         | 532,855,530         | <b>520,784,186</b>  |

The rights of class A and class B ordinary shares rank equally with the ordinary shares in respect of rights to dividends but differ in respect of the right to appoint directors. Full details of the voting rights of ordinary class A and class B shares are documented in the Articles of Association of Telkom.

The directors have been given authority to buy back Telkom's own shares up to a limit of 20% of the issued share capital as at September 22, 2008. This authority expires at the next Annual General Meeting.

|                            | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|----------------------------|-------------------------|-----------------------------|-----------------------------|
| <b>16. TREASURY SHARES</b> |                         |                             |                             |

|  |         |         |                |
|--|---------|---------|----------------|
| At September 30, 2008 8,994,097 (September 30, 2007: 10,493,233; March 31, 2008: 10,493,141)<br>and 10,849,058 (September 30, 2007: 10,849,058; March 31, 2008: 10,849,058) ordinary shares in<br>Telkom, with a fair value of R945 million (September 30, 2007: R1,821 million; March 31, 2008:<br>R1,377 million) and R1,140 million (September 30, 2007: R1,882 million; March 31, 2008:<br>R1,423 million) are held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou<br>Investments (Proprietary) Limited, respectively. | (1,638) | (1,638) | <b>(1,522)</b> |
|--|---------|---------|----------------|

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 1,499,044 (September 30, 2007: 1,743,783;  
March 31, 2008: 1,743,875) shares that vested in terms of the TCSP during the six months ended  
September 30, 2008.

## Notes to the condensed consolidated interim financial statements (continued)

for the six months ended September 30, 2008

### 17. SHARE-BASED COMPENSATION RESERVE

This reserve represents the cumulative 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,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|-------------------------------------|-------------------------|-----------------------------|-----------------------------|
| Balance at beginning of year/period | 257                     | 257                         | 643                         |
| Net increase/(decrease) in equity   | 386                     | (110)                       | 295                         |
| Employee cost*                      | 522                     | 26                          | 411                         |
| Vesting and transfer of shares      | (136)                   | (136)                       | (116)                       |
| Balance at end of year/period       | 643                     | 147                         | 938                         |

\*The increase in the employee cost for the current period is mainly due to the additional shares allocated in September 2007 and the change in assumptions as revised below.

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

|  |     |     |     |
|--|-----|-----|-----|
| Employee turnover (%)  | 5   | 5   | 5   |
| Meeting specified performance criteria – 2009 vesting (%)          | 100 | 50  | 100 |
| Meeting specified performance criteria – all remaining vesting (%) | 100 | 100 | 100 |

At September 30, 2008 the estimated total compensation expense to be recognised over the vesting period was R2,151 million (September 30, 2007: R2,095 million; March 31, 2008: R2,151 million), of which R411 million (September 30, 2007: R26 million; March 31, 2008: R522 million) was recognised in employee expenses for the six months ended September 30, 2008.

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>18. INTEREST-BEARING DEBT**</b>                  |                         |                             |                             |
| <b>Non-current portion of interest-bearing debt</b> | 9,395                   | 4,501                       | <b>10,692</b>               |
| Local debt  | 6,875                   | 2,457                       | <b>8,419</b>                |
| Foreign debt  | 1,433                   | 923                         | <b>746</b>                  |
| Finance leases                                      | 1,087                   | 1,121                       | <b>1,527</b>                |
| <b>Current portion of interest-bearing debt</b>     | 6,330                   | 10,962                      | <b>6,767</b>                |
| Local debt  | 6,001                   | 10,718                      | <b>5,684</b>                |
| Foreign debt  | 202                     | 167                         | <b>970</b>                  |
| Finance leases                                      | 127                     | 77                          | <b>113</b>                  |

Movements in borrowings for the period are as follows:

**Répayments/refinancing**

The Company issued new local bonds, the TL12 and TL15 with a nominal value of R1,060 million and R1,160 million respectively as well as Money Market Term Borrowings of R3,000 million during the period under review. Commercial Paper Bills with a nominal value of R6,316 million were issued and Commercial Paper debt with a nominal value of R6,684 million were repaid during the period under review. Included in the current portion at September 30, 2007 was a amount of R4,500 million relating to the TK01 which was repaid on March 31, 2008.

The R6,767 million current portion of debt as at September 30, 2008 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.

*\*\*Amounts net of Disposal group held for sale.*

**19. FINANCIAL LIABILITIES**

**19.1 Congolese Wireless Network s.p.r.l. put option**

In terms of a shareholder agreement, the minority shareholder in Vodacom Congo (RDC) s.p.r.l., Congolese Wireless Network s.p.r.l., has a put option which came into effect three years after the commencement date, December 1, 2001, and for a maximum of five years thereafter. The option price will be the fair market value of the related shares at the date the put option is exercised. The option liability's value is R328 million (Group share: R164 million) (September 30, 2007: R337 million; March 31, 2008: R396 million (Group share: September 30, 2007: R169 million; March 31, 2008: R198 million)). The financial liability has been classified as current.

**19.2 Multi-Links put option**

In terms of the sale agreement signed on May 1, 2007 between Telkom and the previous shareholders of Multi-Links, the minorities have been granted a put option that requires Telkom to purchase all of the minorities' shares in Multi-Links, if the minorities put their shares to Telkom. The put option is exercisable within 90 days of the second anniversary of signing the sales agreement. A liability of R773 million (March 31, 2008; R919 million) has been recognised in this regard. R661 million was initially recognised directly in equity. The financial liability has been classified as current.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### **20. COMMITMENTS**

#### **Capital commitments**

|  |        |       |        |
|--|--------|-------|--------|
| Capital commitments authorised                     | 15,198 | 9,440 | 14,600 |
| Fixed-line   | 7,000  | 4,480 | 5,162  |
| Mobile   | 5,211  | 3,516 | 3,987  |
| Other  | 2,987  | 1,444 | 5,451  |
| Commitments against authorised capital expenditure | 3,504  | 2,875 | 7,015  |
| Fixed-line   | 652    | 1,482 | 1,127  |
| Mobile   | 800    | 918   | 1,328  |
| Other  | 2,052  | 475   | 4,560  |
| Authorised capital expenditure not yet contracted  | 11,694 | 6,565 | 7,585  |
| Fixed-line   | 6,348  | 2,998 | 4,035  |
| Mobile   | 4,411  | 2,598 | 2,660  |
| Other  | 935    | 969   | 890    |

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

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

#### **2010 FIFA World Cup Commitments**

The FIFA World Cup commitment is an executory contract which requires the Group to develop the fixed-line components of the necessary telecommunications infrastructure needed to broadcast this event to the world. This encompasses the provisioning of the fixed-line telecommunications related products and services and, where applicable, the services of qualified personnel necessary for the planning, management, delivery, installation and de-installation, operation, maintenance and satisfactory functioning of these products and services. Furthermore as a National Supporter, Telkom owns a tier 3 sponsorship that grants Telkom a package of advertising, promotional and marketing rights that are exercisable within the borders of South Africa. The total value of the commitment for the period ended September 30, 2008 amounted to USD35 million.

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|                          | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--------------------------|-------------------------|-----------------------------|-----------------------------|
| <b>21. CONTINGENCIES</b> |                         |                             |                             |
| Third parties            | 27                      | 40                          | 26                          |
| Fixed-line               | 18                      | 18                          | <b>18</b>                   |
| Mobile                   | 4                       | 17                          | <b>3</b>                    |
| Other                    | 5                       | 5                           | <b>5</b>                    |

**Third parties**

These amounts represent sundry disputes with suppliers that are not individually significant and that the Group does not intend to settle.

**Supplier dispute**

Expenditure of R594 million was incurred up to March 31, 2002 for the development and installation of an integrated end-to-end customer assurance and activation system to be supplied by Telcordia. In the 2001 financial year, the agreement with Telcordia was terminated and in that year, Telkom wrote off R119 million of this investment. Following an assessment of the viability of the project, the balance of the Telcordia investment was written off in the 2002 financial year. During March 2001, the dispute was taken to arbitration where Telcordia was seeking approximately USD130 million plus interest at a rate of 15.5% per year which was subsequently increased to USD172 million plus interest at a rate of 15.5% per year for money outstanding and damages.

The parties have since reached an advanced stage in their preparation to determine the quantum payable by Telkom to Telcordia. Following the ruling by the Constitutional Court, two hearings were held at the International Dispute Resolutions Centre (IDRC). The first hearing was held in London on May 21, 2007 and was a 'directions hearing' in terms of which the parties consented to a ruling by the arbitrator setting out a consolidated list of proposals and issues to form part of the quantum hearing.

In the second hearing in London at the IDRC on June 25 and 26, 2007 the arbitrator set out a list of issues for determination at the quantum hearing.

At a subsequent hearing during July 2007 in London the arbitrator ruled that the rate in terms of the Prescribed Rate of Interest will apply on both damages and debt claims, permitted Telcordia to a further amount to Telcordia's existing claims, permitted VAT to be claimed on Telcordia's claim, where applicable, and set out an agreed timetable for the future conduct of proceedings.

A mediation took place, without success, during February and April 2008.

In the interim the parties have agreed to the appointment by the arbitrator of a third party expert to deal with the technical issues in relation to the software that was required to be provided by Telcordia, who will make a recommendation to the arbitrator in dealing with the amount of the claims. The arbitrator confirmed certain dates for the compliance of procedural steps to be taken by all the parties before final dates could be agreed upon for the hearing of the evidence on the quantum.

A hearing took place before the arbitrator in Johannesburg on October 23 and 24, 2008 in respect of the pending interlocutory applications.

Telkom has in the interim also requested a referral to the independent third expert of the technical issues arising from the systems integration amendment. A hearing has been scheduled to be heard before the third party expert and will take place in Johannesburg from November 3 to 21, 2008. After the third party expert's hearing he will be required to file a report and may be called to give evidence and undergo cross-examination on his report before the arbitrator.

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

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

|  | March,<br>2008 | September,<br>2007 | September,<br>2008 |
|--|----------------|--------------------|--------------------|
|  | Rm             | Rm                 | Rm                 |

## 21. CONTINGENCIES (*continued*)

Supplier dispute liability included in current portion of provisions

569

441

603\*

\* USD72 million

## Competition Commission

If found guilty, Telkom could be required to cease these practices, divest these businesses and a maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The Competition Commission has to date not imposed the maximum penalty on any offender.

## *The South African Value Added Network Services ('SAVA')*

On July 3, 2008 the Competition Commission 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 Competition Commission and Competition Tribunal 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, and the Main Complaint before the Competition Tribunal will continue to be held over pending the outcome of the appeal and cross-appeal.

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 Competition Commission conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the Competition Tribunal for adjudication. The matter is currently being dealt with together with the SAVA matter as discussed above.

## *Orion/Telkom (Standard Bank and Edcon): Competition Tribunal*

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

The Internet Service Providers Association ('ISPA')

The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the aspects of the complaint. Telkom has provided the records requested.

The complaints by ISPA at the Competition Commission were also mentioned as being the subject of an investigation by the Competition Commission, in a summons issued by the Competition Commission and forwarded to Telkom on July 31, 2008. The summons has subsequently been withdrawn by agreement with the Competition Commission, but Telkom is still engaged in a co-operative process with the Competition Commission as part of the Competition Commission's ongoing investigations into this complaint.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

### **21. CONTINGENCIES (continued)**

#### **Competition Commission (continued)**

##### ***M-Web and Internet Solutions ('IS')***

To date there has been no further movement on this matter, either in the filing of a replying affidavit by IS/M-Web in the interim relief application or in the investigation of the matter by the Competition Commission.

The complaint by M-Web and IS at the Competition Commission was also one of the complaints mentioned as being the subject of investigation as discussed above.

##### ***M-Web***

This application was set down for hearing during the first quarter of the 2009 financial year. The parties have entered into settlement negotiations, which resulted in the withdrawal of the interim relief application by M-Web as well as withdrawal of the jurisdictional challenge by Telkom. The parties are in further negotiations.

The complaint by M-Web at the Competition Commission was also one of the complaints mentioned as being the subject of investigation as discussed above.

#### **The Group's exposure is 50% of the following items in the Vodacom Group:**

##### ***Retention Incentives***

The Group has committed a maximum R1,317 million (2007: R652 million; 2006: R456 million) in respect of customers already beyond their normal 24 month contract period, but who have not yet upgraded into new contracts, and therefore have not utilised the incentive available for such upgrades. The Group has not provided for this liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

##### ***Universal Service Obligation***

The Group has a potential liability of R147.5 million in respect of the 1800 MHz Universal Service Obligation in terms of the distribution costs relating to the 2.5 million SIM cards.

##### ***Various legal contingencies***

The Group is currently involved in various legal proceedings against it. The Group in consultation with its legal counsel has assessed the outcome of these proceedings and the likelihood that certain of these cases are not likely to be in the Group's favour. Following this assessment, the Group's management has determined that no provision is required in respect of these legal proceedings as at September 30, 2008.

##### ***Unresolved taxation matters***

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

The Group has discussions with relevant taxation authorities on specific matters regarding the application and interpretation of taxation legislation affecting the Group and the industry in which it operates. No reliable assessment can be made at this time of any exposure, if any, that the Group may incur.

The Group has considered all matters in dispute with the taxation authorities and has assessed the deductibility of expenses initially disallowed for taxation purposes. Deferred taxation assets have only been recognised in this regard if it is probable that the Group will succeed in its disagreements with the taxation authorities.

##### ***Put and call options***

In terms of various shareholders' agreements, put and call options exist for the acquisition of shares in various companies. Except as disclosed in note 19, none of the put and call options have any value at any of the periods presented as the conditions set out in the agreements have not been met.

## Notes to the condensed consolidated interim financial statements (continued)

for the six months ended September 30, 2008

### 21. CONTINGENCIES (continued)

#### *Customer registration*

The telecommunications industry in the Democratic Republic of the Congo is subject to a recently promulgated ministerial decree requiring the registration of the entire customer base of all network operators. This decree requires prescribed particulars of all customers to be obtained and maintained by June 30, 2008. Verbal extension up to December 31, 2008 has been obtained and the Group is making every effort to obtain the required information within the allowed timeframe.

#### *Contingent asset*

Litigation is being instituted for the recovery of certain fees paid by the Vodacom Group. The information usually required by IAS 37: Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that a claim may be successful and that the amount recovered could be significant.

#### *Negative working capital ratio*

At each of the financial periods ended September 30, 2008 and 2007 and the year ended March 31, 2008 Telkom 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.

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>22. SEGMENT INFORMATION</b>  |                         |                             |                             |
| <i>Eliminations represent the inter-segmental transactions that have been eliminated against segment results.</i> |                         |                             |                             |
| <b>Business Segment</b>   |                         |                             |                             |
| Consolidated operating revenue  | 56,271                  | 27,227                      | 29,884                      |
| Fixed-line  | 32,572                  | 16,108                      | 16,565                      |
| Elimination   | (830)                   | (420)                       | (414)                       |
| Mobile  | 24,089                  | 11,407                      | 13,008                      |
| Elimination   | (1,519)                 | (754)                       | (771)                       |
| Other   | 1,993                   | 902                         | 1,517                       |
| Elimination   | (20)                    | (16)                        | (10)                        |
| Disposal group held for sale – Telkom Media included in Other   | (14)                    | –                           | (11)                        |
| Consolidated other income   | 534                     | 204                         | 246                         |
| Fixed-line  | 497                     | 189                         | 207                         |
| Elimination   | (86)                    | (33)                        | (28)                        |
| Mobile  | 56                      | 22                          | 32                          |
| Other   | 67                      | 26                          | 35                          |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>22. SEGMENT INFORMATION (continued)</b>                    |                         |                             |                             |
| Consolidated operating expenses                               | 42,186                  | 20,067                      | 23,454                      |
| Fixed-line  | 24,962                  | 12,011                      | 13,515                      |
| Elimination   | (1,709)                 | (784)                       | (1,031)                     |
| Mobile  | 17,898                  | 8,573                       | 9,820                       |
| Elimination   | (805)                   | (395)                       | (393)                       |
| Other   | 2,115                   | 747                         | 1,648                       |
| Elimination   | (124)                   | (34)                        | (12)                        |
| Disposal group held for sale — Telkom Media included in Other | (151)                   | (51)                        | (93)                        |
| Consolidated operating profit                                 | 14,619                  | 7,364                       | 6,676                       |
| Fixed-line  | 8,107                   | 4,286                       | 3,257                       |
| Elimination   | 793                     | 331                         | 589                         |
| Mobile  | 6,247                   | 2,856                       | 3,220                       |
| Elimination   | (714)                   | (359)                       | (378)                       |
| Other   | (55)                    | 181                         | (96)                        |
| Elimination   | 104                     | 18                          | 2                           |
| Disposal group held for sale — Telkom Media included in Other | 137                     | 51                          | 82                          |
| Consolidated investment income                                | 197                     | 130                         | 136                         |
| Fixed-line  | 3,975                   | 98                          | 1,661                       |
| Elimination   | (3,832)                 | —                           | (1,547)                     |
| Mobile  | 27                      | 24                          | 11                          |
| Other   | 27                      | 8                           | 11                          |
| Consolidated finance charges                                  | 1,797                   | 972                         | 1,036                       |
| Fixed-line  | 1,277                   | 704                         | 845                         |
| Mobile  | 240                     | 247                         | 342                         |
| Other   | 320                     | 21                          | (151)                       |
| Elimination   | (34)                    | —                           | —                           |
| Disposal group held for sale — Telkom Media included in Other | (6)                     | —                           | —                           |
| Consolidated taxation   | 4,705                   | 2,678                       | 2,009                       |
| Fixed-line  | 2,630                   | 1,798                       | 974                         |
| Mobile  | 2,055                   | 806                         | 998                         |
| Other   | 19                      | 74                          | 37                          |
| Disposal group held for sale — Telkom Media included in Other | 1                       | —                           | —                           |
| Minority interests  | 197                     | 93                          | 63                          |
| Mobile  | 73                      | 31                          | 41                          |
| Other   | 124                     | 62                          | 22                          |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>22. SEGMENT INFORMATION (continued)</b>                        |                         |                             |                             |
| Profit attributable to equity holders of Telkom                   | 7,975                   | 3,700                       | 3,622                       |
| Fixed-line  | 8,175                   | 1,882                       | 3,099                       |
| Elimination   | (3,039)                 | 331                         | (958)                       |
| Mobile  | 3,906                   | 1,796                       | 1,850                       |
| Elimination   | (714)                   | (359)                       | (378)                       |
| Other   | (491)                   | 32                          | 7                           |
| Elimination   | 138                     | 18                          | 2                           |
| *Operating expenses   |                         |                             |                             |
| Other   | 1,679                   | 696                         | 1,521                       |
| Prior to consolidation adjustments                                | 2,115                   | 747                         | 1,648                       |
| Consolidation adjustments   | (285)                   | —                           | (34)                        |
| Disposal group held for sale – Telkom Media included in Other     | (151)                   | (51)                        | (93)                        |
| Consolidated assets   | 68,259                  | 61,859                      | 70,959                      |
| Fixed-line  | 47,829                  | 43,295                      | 48,171                      |
| Elimination   | (1,604)                 | (93)                        | (1,475)                     |
| Mobile  | 16,743                  | 15,296                      | 17,892                      |
| Elimination   | (278)                   | (280)                       | (358)                       |
| Other*  | 5,734                   | 3,670                       | 6,850                       |
| Elimination*  | (165)                   | (29)                        | (121)                       |
| *Included in Other is Disposal group held for sale – Telkom Media | 42                      | 36                          | 53                          |
| Investments   | 1,499                   | 1,522                       | 1,646                       |
| Fixed-line  | 4,917                   | 3,988                       | 6,672                       |
| Elimination   | (3,607)                 | (2,666)                     | (5,226)                     |
| Mobile  | 176                     | 168                         | 187                         |
| Other*  | 13                      | 32                          | 13                          |
| *Included in Other is Disposal group held for sale – Telkom Media | —                       | 18                          | —                           |
| Other financial assets  | 614                     | 214                         | 122                         |
| Fixed-line  | 445                     | 199                         | 92                          |
| Mobile  | 169                     | 15                          | 30                          |
| Total assets  | 70,372                  | 63,595                      | 72,727                      |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>22. SEGMENT INFORMATION (continued)</b>                        |                         |                             |                             |
| Consolidated liabilities  | 19,689                  | 17,477                      | 19,463                      |
| Fixed-line  | 11,892                  | 10,218                      | 11,156                      |
| Elimination   | (495)                   | (548)                       | (496)                       |
| Mobile  | 8,871                   | 7,364                       | 9,502                       |
| Elimination   | (1,542)                 | (38)                        | (1,493)                     |
| Other*  | 971                     | 485                         | 751                         |
| Elimination*  | (8)                     | (4)                         | 43                          |
| *Included in Other is Disposal group held for sale – Telkom Media |                         |                             |                             |
|   | 73                      | 15                          | 51                          |
| Interest-bearing debt   | 15,733                  | 15,463                      | 17,468                      |
| Fixed-line  | 13,362                  | 14,185                      | 14,668                      |
| Mobile  | 1,815                   | 1,181                       | 1,810                       |
| Other*  | 556                     | 488                         | 990                         |
| Elimination*  | —                       | (391)                       | —                           |
| *Included in Other is Disposal group held for sale – Telkom Media |                         |                             |                             |
|   | 8                       | —                           | 9                           |
| Other financial liabilities                                       | 1,290                   | 958                         | 1,108                       |
| Fixed-line  | 167                     | 731                         | 152                         |
| Mobile  | 204                     | 227                         | 183                         |
| Other   | 919                     | —                           | 773                         |
| Tax liabilities   | 323                     | 122                         | 475                         |
| Fixed-line  | 7                       | —                           | 168                         |
| Mobile  | 290                     | 104                         | 261                         |
| Other   | 26                      | 18                          | 46                          |
| Total liabilities   | 37,035                  | 34,020                      | 38,514                      |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|   | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|---|-------------------------|-----------------------------|-----------------------------|
| <b>22. SEGMENT INFORMATION (continued)</b>                        |                         |                             |                             |
| <b>Other segment information</b>                                  |                         |                             |                             |
| Capital expenditure for property, plant and equipment             | 10,108                  | 3,580                       | 5,585                       |
| Fixed-line  | 6,044                   | 2,464                       | 2,550                       |
| Mobile  | 2,475                   | 977                         | 1,253                       |
| Other*  | 1,589                   | 139                         | 1,782                       |
| *Included in Other is Disposal group held for sale – Telkom Media |                         |                             |                             |
| 209   | 14                      | 31                          |                             |
| Capital expenditure for intangible assets                         | 1,791                   | 863                         | 587                         |
| Fixed-line  | 749                     | 183                         | 194                         |
| Mobile  | 985                     | 671                         | 325                         |
| Other*  | 57                      | 9                           | 68                          |
| *Included in Other is Disposal group held for sale – Telkom Media |                         |                             |                             |
| 31  | 9                       | 1                           |                             |
| Depreciation and amortisation                                     | 5,595                   | 2,745                       | 3,174                       |
| Fixed-line  | 3,470                   | 1,704                       | 1,908                       |
| Mobile  | 1,955                   | 951                         | 1,098                       |
| Other   | 176                     | 90                          | 176                         |
| Disposal group – Telkom Media included in Other                   | (6)                     | –                           | (8)                         |
| Impairment and asset write-offs                                   | 529                     | 156                         | 132                         |
| Fixed-line  | 262                     | 165                         | 87                          |
| Mobile  | 15                      | (9)                         | 11                          |
| Other   | 252                     | –                           | 34                          |

**Notes to the condensed consolidated interim financial statements (continued)**  
 for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### 23. 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 joint venture:

##### Vodacom Group (Proprietary) Limited

###### *Related party balances*

|                   |       |       |       |
|-------------------|-------|-------|-------|
| Trade receivables | 51    | (44)  | 58    |
| Trade payables    | (346) | (388) | (377) |

###### *Related party transactions*

|            |       |       |       |
|------------|-------|-------|-------|
| Revenue    | (816) | (385) | (404) |
| Expenses   | 1,525 | 754   | 776   |
| Audit fees | 3     | 2     | 2     |

Revenue includes interconnect fees and lease and installation of transmission lines

Expenses mostly represent interconnect expenses

#### With shareholders:

##### Government

###### *Related party balances*

|                   |     |     |     |
|-------------------|-----|-----|-----|
| Trade receivables | 326 | 298 | 358 |
|-------------------|-----|-----|-----|

###### *Related party transactions*

|         |         |         |         |
|---------|---------|---------|---------|
| Revenue | (2,623) | (1,277) | (1,385) |
|---------|---------|---------|---------|

#### With entities under common control:

##### Major public entities

###### *Related party balances*

|                   |      |      |      |
|-------------------|------|------|------|
| Trade receivables | 28   | 42   | 48   |
| Trade payables    | (25) | (16) | (26) |

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

###### *Related party transactions*

|               |       |       |       |
|---------------|-------|-------|-------|
| Revenue       | (486) | (185) | (214) |
| Expenses      | 243   | 114   | 64    |
| Rent received | (21)  | (10)  | (10)  |
| Rent paid     | 22    | 10    | 11    |

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

|  | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|--|-------------------------|-----------------------------|-----------------------------|
|--|-------------------------|-----------------------------|-----------------------------|

### **23. RELATED PARTIES (continued)**

#### **Key management personnel compensation:**

Including directors' emoluments

#### *Related party transactions*

|                              |     |     |    |
|------------------------------|-----|-----|----|
| Short-term employee benefits | 231 | 126 | 61 |
| Post employment benefits     | 12  | 12  | 4  |
| Termination benefits         | 27  | 16  | —  |
| Equity compensation benefits | 29  | 14  | 15 |
| Other long term benefits     | 16  | 7   | 5  |

#### **Terms and conditions of transactions with related parties**

The sales to and purchases from related parties of telecommunication services are made at arms length prices. Except as indicated above, outstanding balances at the end of the period are unsecured, interest free (except for interest charged on overdue telephone accounts) and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables. Except as indicated above for the period ended September 30, 2008, Telkom has impairment of a loan of R430 million (September 30, 2007: Nil; March 31, 2008: R217 million). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

### **24. SIGNIFICANT EVENTS**

#### **Swiftnet (Proprietary) Limited**

Telkom is in the process of selling a 30% shareholding in its subsidiary Swiftnet (Proprietary) Limited ('Swiftnet') in order to comply with existing licence requirements from the Independent Communications Authority of South Africa ('ICASA'). The proposed sale of the shares to the Radio Surveillance Consortium ('RSC'), has not been approved by ICASA and Telkom is assessing the way forward.

#### **Telkom Media (Proprietary) Limited**

On August 31, 2006 Telkom created a new subsidiary, Telkom Media with a Black Economic Empowerment ('BEE') shareholding. ICASA awarded Telkom Media a commercial satellite and cable subscription broadcast licence on September 12, 2007.

In March 31, 2008, the Board took the decision to substantially reduce its investment in Telkom Media. Subsequent to period end, a third party expressed interest to acquire Telkom Media and negotiations with a potential investor have progressed far. An announcement of the details of this transaction can be expected shortly, hence the investment in Telkom Media meets all the conditions for classification as held for sale as top management is committed to a plan to sell, the asset is available for immediate sale and an active programme to locate a buyer has been initiated. The investment is therefore classified as held for sale in terms of IFRS5.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

### **24. SIGNIFICANT EVENTS (continued)**

#### **Capability Management**

Telkom seeks to manage costs by realigning its structure and resources to better match its transforming information, communications and technology business and to improve customer service. The transformation of the communications industry and increasing market and competitive pressure has put communication companies such as Telkom under increasing revenue and expense constraints while being required to improve customer service. As a result a capability management initiative has been launched which is designed to ensure that the capabilities needed to succeed in a converged communications market are established through the optimal utilisation of external as well as internal capabilities, extracting efficiencies, where possible, through scale of a rapidly maturing retail and wholesale market and better organised functional areas in a more deregulated and liberalised communications market. The capability management initiative includes the internal consolidation of certain functional areas and the selection of strategic long-term partners with proven performance for other functional areas.

The areas which are expected to be impacted are the call centres, operations, ancillary services, network service providers, network field operations, network core operations, information technology operations and retail outlets.

Telkom is engaging with labour to map the way forward. A memorandum of understanding was entered into between Telkom and Organised Labour which included issues such as the establishment of a restructuring forum, deferment of implementation post April 2009, Organised Labour obtaining the services of an advisor and continuation of investigative work.

#### **Telkom Management Services (Proprietary) Limited ('TMS')**

TMS was registered as a company during August 2008. Telkom's Board approved the establishment of TMS as a part of Telkom's strategic plan to grow revenue and expand geographic reach.

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### **25. SUBSEQUENT EVENTS**

#### **Vodacom sale transaction**

On May 30, 2008 Telkom received a non-binding proposal from a wholly-owned subsidiary of Vodafone Group Plc ('Vodafone'). In terms of this proposal, Vodafone is seeking a stake in Vodacom Group (Proprietary) Limited ('Vodacom') from Telkom. The proposed consideration for this stake is R22,500 million less the attributable net debt of Vodacom at the time of signature and will be settled in cash.

The proposed transaction is subject to, inter alia, Telkom unbundling its remaining stake in Vodacom to its shareholders pursuant to a listing of Vodacom on the main board of the JSE Limited.

In October 2008, Telkom Board obtained approval from the major shareholder (The Government of the South African Republic) to dispose of 15% of the shares at the consideration of R22,500 million net of debt. The transaction is still subject to the approval of 75% of the shareholders and other suspensive conditions before conclusion of the transaction.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

### **25. SUBSEQUENT EVENTS (continued)**

#### **Vodacom sale transaction (continued)**

The following disclosure presents significant items of Vodacom financial results, position and cash flows which have been proportionately consolidated into the Group.

|                               | March 31,<br>2008<br>Rm | September 30,<br>2007<br>Rm | September 30,<br>2008<br>Rm |
|-------------------------------|-------------------------|-----------------------------|-----------------------------|
| Revenue                       | 22,570                  | 10,654                      | 12,238                      |
| Expenses                      | 17,093                  | 8,178                       | 9,427                       |
| Profit before taxation        | 5,319                   | 2,274                       | 2,511                       |
| Taxation                      | 2,055                   | 806                         | 998                         |
| Profit after taxation         | 3,264                   | 1,468                       | 1,513                       |
| Assets and Liabilities:       |                         |                             |                             |
| Property, plant and equipment | 9,559                   | 8,582                       | 10,115                      |
| Intangible assets             | 2,112                   | 1,877                       | 2,163                       |
| Trade and other receivables   | 3,132                   | 3,008                       | 3,354                       |
| Interest-bearing debt         | 1,815                   | 1,180                       | 1,810                       |
| Trade and other payables      | 3,630                   | 2,833                       | 4,049                       |
| Deferred revenue              | 1,373                   | 1,352                       | 1,368                       |
| Credit facilities utilised    | 1,298                   | 2,293                       | 1,682                       |
| <b>Net cash flows</b>         |                         |                             |                             |
| Operating cash flow           | 2,563                   | 535                         | 1,028                       |
| Investing cash flow           | (3,751)                 | (2,321)                     | (1,944)                     |
| Financing cash flow           | 1,617                   | 2,229                       | 798                         |
| Total cash flow               | 429                     | 443                         | (118)                       |

#### **Appointment of director**

On November 10, 2008 Telkom announced the appointment of Mr Peter Nelson as Chief Financial Officer and director of the company with effect from December 8, 2008.

#### **Acquisition of M-Web Africa and majority equity stake in M-Web Namibia**

On November 10, 2008, Telkom International (Proprietary) Limited, a wholly-owned subsidiary of Telkom, announced it has entered into agreements to acquire 100% of M-Web Africa Limited ('M-Web Africa') and 75% of M-Web Namibia (Proprietary) Limited. The purchase price for the M-Web Africa group including AFSAT and M-Web Namibia is US\$63 million (approximately R610 million). These shareholdings will be acquired from Multichoice Africa Limited and MIH Holdings Limited respectively, which are members of the Naspers Limited Group.

M-Web Africa is an internet services provider in sub-Saharan Africa (excluding South Africa) which also provides network access services in some countries and is headquartered in Mauritius with operations in Namibia, Nigeria, Kenya, Tanzania, Uganda and Zimbabwe, an agency arrangement in Botswana and distributors in 26 sub-Saharan African countries.

The successful conclusion of the agreements being entered into is subject to conditions precedent, including regulatory approvals being obtained in certain African jurisdictions.

## **Notes to the condensed consolidated interim financial statements (continued)**

for the six months ended September 30, 2008

### **25. SUBSEQUENT EVENTS (continued)**

#### **Foreign exchange gains/losses**

In response to global market conditions the South African Rand has lost considerable value against foreign currencies (USD, Euro, Sterling). This will create fluctuations with respect to foreign exchange gains/losses and fair value movements.

**The Group is exposed to 50% of the following items in the Vodacom Group:**

#### ***Broad Based Black Economic Empowerment ('BBBEE')***

Subsequent to the reporting date, the Group finalised a R7.5 billion BBBEE equity deal whereby strategic business partners, the black public, business partners and employees will have the opportunity to participate in the ownership of Vodacom (Proprietary) Limited ('Vodacom SA') going forward. The black public and business partners obtained ownership in Vodacom SA via a public offer. The prospectus relating to the public offer was issued on July 30, 2008 and applications for shares closed on September 11, 2008 ('closing date'). The public offer was approximately three times oversubscribed and the share allotment was therefore pro-rated according to the rules stated in the prospectus. The final share issue took place on October 8, 2008.

#### ***Indebtedness incurred subsequent to period end***

Subsequent to September 30, 2008, the Group obtained funding from a consortium of lenders in the amount of R6.5 billion. The funding will be utilised to refinance existing short-term debt as well as for capital expenditure and working capital requirements. The facility is linked to JIBAR and is repayable between 3 and 7 years.

#### ***VM, S.A.R.L.***

On May 12, 2008 the Group entered into an agreement to sell 5% of its 90% holding in VM, S.A.R.L, leaving the Group with an 85% equity investment in VM, S.A.R.L. The transaction was effective on October 2, 2008 since all suspensive conditions were met on this date.

#### ***Gateway Telecommunications SA (Proprietary) Limited ('Gateway')***

The Group has agreed to acquire the carrier services and business network solutions business of Gateway for an enterprise value of approximately US\$675 million plus make a whole payment of approximately US\$25 million in relation to Gateway's high-yield bond. The purchase agreement is subject to certain conditions precedent including approval from the relevant competition authorities in South Africa. Once these conditions are met the transaction will be effective.

#### ***Storage Technology Services (Proprietary) Limited ('StorTech')***

The Group has agreed to acquire a controlling interest of 51% in StorTech, a managed services company, for R140 million. StorTech's portfolio complements the Group's enterprise solutions-focused division and expands upon the Group's data centre services capabilities. The transaction remains subject to certain conditions precedent, including approval from the relevant competition authorities in South Africa. Once these conditions are met the transaction will be effective.

#### ***WBS Holdings (Proprietary) Limited ('WBS')***

On October 1, 2008 the Group exercised its option to acquire an additional 14.9% of WBS for R119.2 million.

#### ***Other matters***

The directors are not aware of any other matter or circumstance since the period ended September 30, 2008 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.

## 10. Supplementary Information

| In ZAR millions | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2007 | 2008 |
|-----------------|---------------------------------|---|------|
|-----------------|---------------------------------|---|------|

### EBITDA

Earnings before interest, taxation, depreciation and amortisation (EBITDA) can be reconciled as follows:

|   |         |         |                |
|---|---------|---------|----------------|
| EBITDA  | 20,743  | 10,265  | <b>9,982</b>   |
| Depreciation, amortisation, impairment and write-offs | (6,124) | (2,901) | <b>(3,306)</b> |
| Investment income                                     | 197     | 130     | <b>136</b>     |
| Finance charges                                       | (1,797) | (972)   | <b>(1,036)</b> |
| Taxation  | (4,705) | (2,678) | <b>(2,009)</b> |
| Loss from discontinued operations held for sale       | (142)   | (51)    | <b>(82)</b>    |
| Minority interests                                    | (197)   | (93)    | <b>(63)</b>    |
| Net profit  | 7,975   | 3,700   | <b>3,622</b>   |

### US DOLLAR CONVENIENCE

| In ZAR millions                        | Year ended<br>March 31,<br>2008 | Six months ended<br>September 30,<br>2008 |
|--|---------------------------------|---|
| Revenue                                | 6,913                           | 3,592                                     |
| Operating profits                      | 1,796                           | 802                                       |
| Net profit                             | 980                             | 436                                       |
| EBITDA                                 | 2,548                           | 1,200                                     |
| EPS (cents)                            | 192.3                           | 87.0                                      |
| Net debt                               | 2,041                           | 2,358                                     |
| Total assets                           | 8,645                           | 8,741                                     |
| Cash flow from operating activities    | 1,303                           | 365                                       |
| Cash flow used in investing activities | (1,733)                         | (633)                                     |
| Cash flow used in financing activities | 362                             | 151                                       |
| Exchange rate                          |                                 |   |
| Period end <sup>1</sup>                |                                 |   |
| US\$1 – ZAR                            | 8.14                            | <b>8.32</b>                               |

*1. Noon buying rate*

## Definitions

|   |  |
|---|--|
| 3G  | The generic term, 3G, is used to denote the next generation of mobile systems designed to support high-speed data transmission (144 Kbps and higher) and Internet Protocol (IP)-based services in fixed, portable and mobile environments. As envisaged by the ITU, the 3G system will integrate different service coverage zones and be a global platform and the necessary infrastructure for the distribution of converged service, whether mobile or fixed, voice or data, telecommunications, content or computing.   |
| ADSL (Asymmetrical Digital Subscriber Line)         | ADSL is a broadband access standard which uses existing copper lines to offer high-speed digital connections over the local loop. ADSL transmits data asymmetrically, meaning that the bandwidth usage is much higher in one direction than the other. ADSL provides greater bandwidth from the exchange to the customer (i.e. downloading) than from the customer to the exchange (i.e. sending).   |
| ARPU  | Vodacom's average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks.  |
| ATM (Asynchronous Transfer Mode)                    | ATM is a high-speed Wide Area Network (WAN), connection-oriented, packet-switching data communications protocol that allows voice, data and video to be delivered across existing local and Wide Area Networks.<br><br>ATM divides data into cells and can handle data traffic in bursts. It is asynchronous, in that the stream of cells from one particular user is not necessarily continuous.  |
| Bandwidth   | Bandwidth is a measure of the quantity of signals that can travel over a transmission medium such as copper or a glass fibre strand. It is the available space available to carry a signal. The greater the bandwidth, the greater the information carrying capacity. Bandwidth is measured in bits per second.  |
| Broadband   | Broadband is a method of measuring the capacity of different types of transmission. Digital bandwidth is measured in the rate of bits transmitted per second (bps). For example, an individual ISDN channel has a bandwidth of 64 kilobits per second (Kbps), meaning that it transmits 64,000 bits (digital signals) every second.  |
| CAGR  | Compound Annual Growth Rate.   |
| Carrier pre-selection                               | Carrier pre-selection is usually initiated by the telecoms Regulator. It enables individuals to choose which telecom will carry their traffic (mainly long distance) by a signalling contract rather than having to dial extra digits.   |
| CDMA (Code Division Multiple Access)                | CDMA is one of many technologies for digital transmission of radio signals between, for example, mobile telephones and radio base stations. In CDMA, which is a spread-spectrum modulation technology, each call is assigned a unique "pseudorandom" sequence of frequency shifts that serve as a code to distinguish it. The mobile phone is then instructed to decipher only a particular code to pluck, as it were, the right conversation off the air. CDMA is the technology of choice for 3G mobile systems. CDMA, however, also refers to a particular air-interface standard (a fact that is often a source of confusion). |
| Circuit   | A circuit is a connection or line between two points. This connection can be made through various media, including copper, coaxial cable, fibre or microwave. A telephone exchange is a circuit switch.  |
| DECT (Digital Enhanced Cordless Telecommunications) | DECT is the standard for cordless telephones. DECT phones communicate using the PSTN (public switched telephone network) through a small base station in the home or office and have a working radius of between 50 and 300 metres.  |
| EBITDA  | EBITDA represents profit for the year before taxation, finance charges, investment income and depreciation, amortisation, impairment and write-offs.   |

## Definitions *(continued)*

|   |   |
|---|---|
| <b>EDGE (Enhanced Data for GSM evolution)</b> | DGE is a technology designed to enhance GSM and TDMA systems with respect to data rates and is widely considered to be the GSM evolution beyond GPRS. It enhances the data capabilities of GSM and TDMA systems by altering the RF modulation scheme to allow greater data rates per time slot. Because it uses a different modulation technique across the air-interface, EDGE requires different mobile terminals handsets than those designed for the GSM air-interface.   |
| <b>Effective tax rate</b>                     | The effective tax rate is the tax charge in the income statement divided by pre-tax profit.   |
| <b>Ethernet</b>                               | Ethernet is a protocol that defines how data is transmitted to and received from LANs. It is the most prevalent LAN protocol, with speeds of up to 10 Mbps.   |
| <b>Fibre optics</b>                           | Fibre optics is where messages or signals are sent via light rather than electrical signals down a very thin strand of glass. Light transmission enables much higher data rates than conventional wire, coaxial cable and many forms of radio. Signals travel at the speed of light and do not generate nor are subject to interference.  |
| <b>Fibre rings</b>                            | Fibre rings have come to be used in many fibre networks as it provides more network resiliency: if there is a failure along a route and a ring is broken, the direction of the traffic can be reversed and the traffic will still reach its final destination.  |
| <b>Fixed access lines</b>                     | Fixed access lines are comprised of public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, and public and private payphones, but excluding internal lines in service.   |
| <b>Fixed access lines per employee</b>        | To calculate the number of access lines per employee the total number of access lines is divided by the number of employees at the end of the period.   |
| <b>Fixed-line penetration</b>                 | Fixed-line penetration or teledensity is based on the total number of telephone lines in service at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid-year in the periods indicated as published by Statistics South Africa, a South African Government department.  |
| <b>Fixed-line traffic</b>                     | Fixed-line traffic, other than international outgoing mobile traffic, international interconnection traffic and international Voice over Internet Protocol traffic, is calculated by dividing traffic operating revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices. International Voice over Internet Protocol traffic is based on the traffic reflected in invoices. |
| <b>Frame relay</b>                            | Frame relay is a widely implemented telecommunications service designed for cost-efficient data transmission for data traffic between local area networks and between end-points in a wide area network. The network effectively provides a permanent circuit, which means that the customer sees a continuous, dedicated connection, but does not pay for a full-time leased line.   |
| <b>GPRS (General Packet Radio Service)</b>    | GPRS is a packet rather than a circuit-based technology. GPRS allows for faster data transmission speed to both GSM and TDMA (IS-136) networks. GPRS is a packet-switched technology that overlays the circuit-switched GSM network. The service can be introduced to cellular networks by infrastructure.  |
| <b>GSM (Global System for Mobile)</b>         | GSM is a second generation digital mobile cellular technology using a combination of frequency division multiple access (FDMA) and time division multiple access (TDMA). GSM operates in several frequency bands: 400 MHz, 900 MHz and 1800 MHz. On the TDMA side, there are eight timeslots or channels carrying calls, which operate on the same frequency. Unlike other cellular systems, GSM provides a high degree of security by using subscriber identity module (SIM) cards and GSM encryption.   |

## **Definitions** (continued)

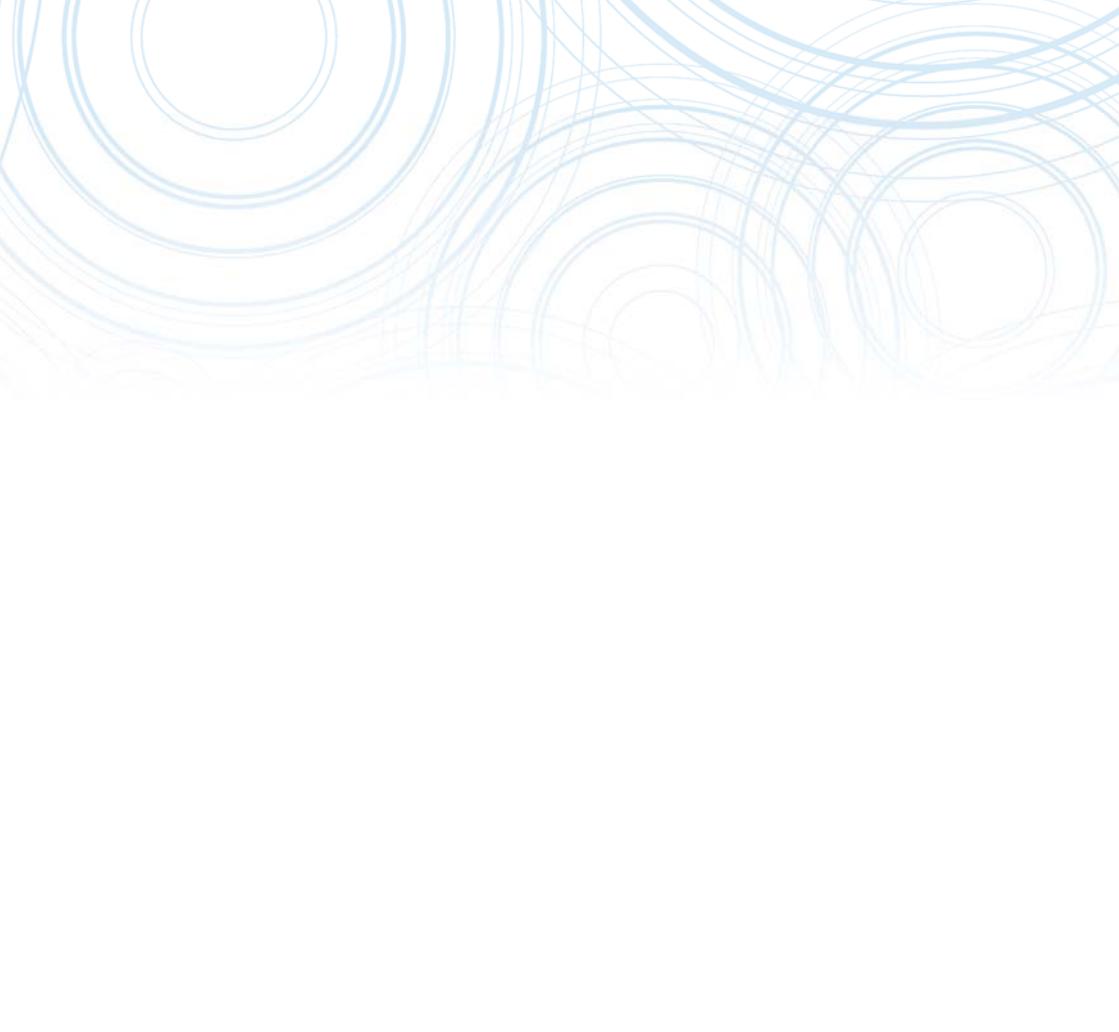
|   |   |
|---|---|
| <b>HSDPA</b>  | High Speed Downlink Packet Access.  |
| <b>IAS</b>  | International Accounting Standards.   |
| <b>IFRS</b>   | International Financial Reporting Standards.  |
| <b>Interconnection</b>                              | Interconnection refers to the joining of two or more networks. Networks need to interconnect to enable traffic to be transmitted to and from destinations. The amounts paid and received by the operators vary according to distance, time, the direction of traffic, and the type of networks involved.  |
| <b>Interest cover</b>                               | Interest cover is calculated by dividing EBIT by the net interest charge in the income statement. It is a measure of income gearing.  |
| <b>ISDN (Integrated Services Digital Network)</b>   | ISDN is a data communications standard used to transmit digital signals over ordinary copper telephone cables. This is one technology for overcoming the "last mile" of copper cables from the local exchange to the subscribers premises, which has proved a bottleneck for Internet access, for example. ISDN allows to carry voice and data simultaneously, in each of at least two channels capable of carrying 64 Kbps. It provides up to 128 Kbps and a total capacity of 144 Kbps exist. |
| <b>ITU (International Telecommunications Union)</b> | ITU is the global technical standard-setting body for telecommunications services.  |
| <b>LAN (Local Area Network)</b>                     | A LAN is a group of devices that communicate with each other within a limited geographic area, such as an office.   |
| <b>Leased line</b>                                  | A leased line is a telecommunications transmission circuit that is reserved by a communications provider for the private use of a customer.   |
| <b>LIBOR</b>  | London Interbank Offer Rate.  |
| <b>Local loop</b>                                   | The local loop is the final connection between the exchange and the home or office. It is also known as the last mile.  |
| <b>Microwave</b>                                    | Microwave is radio transmission using very short wavelengths.   |
| <b>MMS (Multimedia Messaging Services)</b>          | MMS is a service developed jointly together with 3GPP, allows users to combine sounds with images and text when sending messages, much like the text-only SMS.  |
| <b>Mobile churn</b>                                 | Vodacom's churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period.   |
| <b>Mobile penetration</b>                           | Vodacom calculates penetration, or teledensity, based on the total number of customers at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid-year in the periods indicated as published by Statistics South Africa, a South African Governmental department.  |
| <b>Mobile traffic</b>                               | Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls.   |
| <b>MOU (Mobile Minutes of Use)</b>                  | Vodacom's average monthly minutes of use per customer, or average MOU, is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes.  |
| <b>Net debt</b>                                     | Net debt is all interest-bearing debt finance (long-term and short-term) less cash and marketable securities.   |
| <b>Net debt to total equity</b>                     | Net debt to total equity is a measure of book leverage (gearing): net debt in the balance sheet divided by total equity (the sum of shareholders' funds plus minority interests).   |
| <b>Operating free cash flow</b>                     | Operating free cash flow is defined as cash flow from operating activities, after interest and taxation, before dividends paid, less cash flow from investing activities.   |
| <b>Packet switching</b>                             | Packet switching is designed specifically for data traffic, as it cuts the information up into small packets, which are each sent across the network separately and are then reassembled at the final destination. This allows more users to share a given amount of bandwidth. X.25, ATM and frame relay are all packet switching techniques.  |

## Definitions *(continued)*

|  |   |
|--|---|
| <b>POP (Point of Presence)</b>                           | A POP is a service provider's location for connecting to users. Generally, POPs refer to the location where people can dial into the provider's computer. Most providers have several POPs to allow low-cost local access via telephone lines.  |
| <b>PSTN (Public Switched Telephone Network)</b>          | The PSTN is a collection of interconnected voice telephone networks, either for a given country or the whole world. It is the sum of the parts. It was originally entirely analog, but now increasingly digital (indeed in many developed countries digitisation has reached 100%), these networks can be either state-owned or commercially owned. PSTN is distinct from closed private networks (although these may interconnect to the PSTN) and from public data networks (PDN).  |
| <b>Revenue per fixed access line</b>                     | Revenue per fixed access line is calculated by dividing total fixed-line revenue during the period, excluding data and directories and other revenue, by the average number of fixed access lines during the period.  |
| <b>RICA</b>  | Regulation of Interception of Communication and Provision of Communication-related Information Act.   |
| <b>ROA (Return on Assets)</b>                            | Return on Assets is calculated by dividing net profit (annualised) by total assets.   |
| <b>ROE (Return on Equity)</b>                            | Return on Equity is calculated by dividing net income by the average of the shareholders' funds.  |
| <b>SDH (Synchronous Digital Hierarchy)</b>               | SDH is used in most modern systems, where multimedia can be transmitted at high speeds. The networks are shaped in a ring, so that if there is a problem, the traffic can be redirected in the other direction and the caller will not detect the interruption.   |
| <b>SMS (Short Message Service)</b>                       | SMS refers to short, usually text-based messages sent by or to a wireless subscriber. They are not delivered to the recipient instantly and have some degree of transmission time delay. SMS messages are usually limited to total character lengths of 140 to 160 characters.  |
| <b>Switch</b>  | A switch is a computer that acts as a conduit and director of traffic. It is a means of sharing resources as a network.   |
| <b>Total interest-bearing debt</b>                       | Total interest-bearing debt is defined as short- and long-term interest bearing debt, including credit facilities, finance leases and other financial liabilities.  |
| <b>UMTS (Universal Mobile Telecommunications System)</b> | UMTS is the Western European name for the 3G WCDMA standard adopted as an evolutionary path by the GSM world. However, it utilises the radio spectrum in a fundamentally different manner than GSM.<br>UMTS is based on DCMA technology and the GSM standard is based on TDMA technology.   |
| <b>VoIP (Voice over Internet Protocol)</b>               | Voice over Internet Protocol is a protocol enabling voice calls to be made over the Internet. Rather than a dedicated circuit being set up between the caller and receiver, as with ordinary phone calls, the voice conversation is digitised and transmitted over Internet Protocol using packet-switched data networks.   |
| <b>WAN (Wide Area Network)</b>                           | A WAN comprises LANs in different geographic locations that are connected, often over the public network.   |
| <b>WAP (Wireless Application Protocol)</b>               | WAP is an application environment designed to bridge the gap between the mobile and Internet worlds. It is a set of communication protocols for wireless devices designed to provide vendor-neutral and technologyneutral access to the Internet and advanced telecommunications services.  |
| <b>WiMAX</b>   | WiMAX is a standard for extending broadband wireless access to new locations and over longer distances. The technology is expected to enable multimedia applications with wireless connectivity and typically with a range of up to 30 km. It is a standard for fixed wireless access with substantially higher bandwidth capabilities than cellular networks.<br>The emergence of further enhancements to the standard wil enable nomadic data communications across an entire metropolitan area network linking homes and businesses to the core telecommunications network. WiMAX can be viewed as a technology complementing existing ADSL broadband offerings. |

## Notes

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Telkom SA Limited is listed on the JSE Limited and the New York Stock Exchange. Information may be accessed on Reuters under the symbols TKG.J and TKG.N and on Bloomberg under the symbol TKG.JH.

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