Telkom

GROUP INTERIM RESULTS

for the six months ended 30 September 2010

GROUP INTERIM RESULTS

for the six months ended 30 September 2010

WELCOME TO OUR WORLD...

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

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

TABLE OF CONTENTS

SECTION 2

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

TELKOM SA LIMITED GROUP INTERIM RESULTS

for the six months ended 30 September 2010

Special note regarding forward looking statements

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

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

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

The reported results for the comparative period are materially impacted by the accounting for the sale and unbundling of our 50% stake in Vodacom and related transactions and the impairment of Multi-Links.

Unless otherwise indicated, the discussion below is based on normalised results, excluding the items above, and is based on continuing operations as reconciled on page 10.

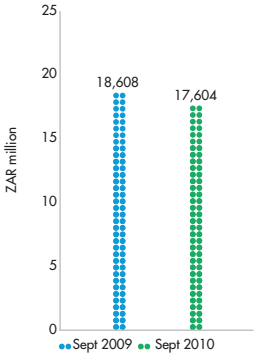
MOVING WITH THE NEXT

2010

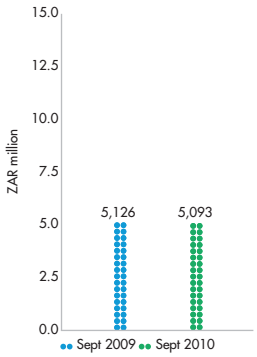
GROUP SALIENT FEATURES FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

- Normalised operating revenue down 5.4% to R17.6 billion.
  - Voice revenue decreased 19.1% to R6.9 billion.
  - Data revenue increased 14.9% to R5.6 billion.
    - ADSL subscribers increased 16.0% to 699,368.
    - Calling plan subscribers increased 17.0% to 762,070.
    - Managed data network sites increased 10.7% to 33,023.
- Normalised operating expenses decreased 6.3% to R15.1 billion.
- Normalised free cash flow increased 2.0% to R623 million.
- Normalised fixed-line free cash flow increased 136.0% to R1,442 million.
- Normalised EBITDA margin increased to 28.9% from 27.5%.
- Normalised headline earnings per share from continuing operations decreased by 5.3% to 265.7 cents.
- Normalised basic earnings per share from continuing operations decreased 6.8% to 260.2 cents per share.

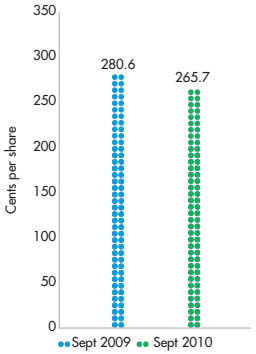
Normalised operating revenue



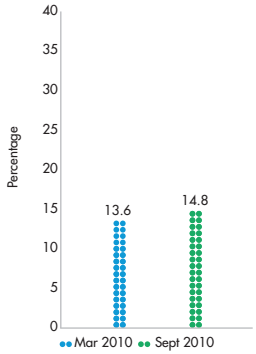
Normalised EBITDA



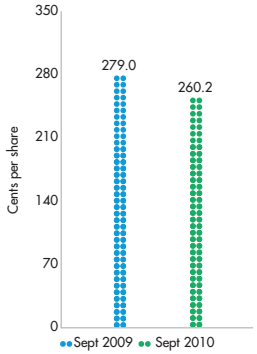
Normalised HEPS



Return on assets before taxation



Normalised BEPS



1. OVERVIEW

Johannesburg, South Africa – 22 November 2010, Telkom SA Limited (JSE: TKG) today announced Group interim results for the six months ended 30 September 2010.

Segment structure

The Group's reporting segments are business units that are separately managed. The Group consists of two reportable segments. The Telkom South Africa segment provides fixed-line access, fixed-mobile and data communications services through Telkom South Africa. The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria through our Multi-Links subsidiary. The other category is a reconciling item which is split geographically between International and South Africa. Telkom International category provides internet services outside South Africa, through the iWayAfrica subsidiary. The South African category includes Trudon Group, Swiftnet, Data Centre Operations and the Group's corporate centre.

The Data Centre Operations was shown as part of the Telkom South Africa segment in the March 2010 results as the information was still in the process of being split out. As the information is now available the results of the Data Centre Operations were moved to the other category as it does not meet the quantitative thresholds for disclosure as a separate segment.

Statement by Jeffrey Hedberg, Acting Group Chief Executive Officer:

"The six months under review have been challenging but exciting. The crowning achievements are Telkom's delivery of the Soccer World Cup 2010 and the build up to the launch of 8ta, our new mobile service. The South African telecommunications industry is becoming more competitive and the regulatory environment continues to pose challenges to all operators. It is imperative that Telkom changes the way it operates in order to defend its revenue and grow into new revenue streams. This is an enormous task given the complexity of Telkom's systems, networks and human resources. In addition, Telkom has had to deal with significant management changes. These dynamics create an excellent opportunity for new management to stabilise the business and then execute on its plan to improve the financial performance of the Telkom Group.

We intend to focus on the following key areas:

- Leadership and organisation – communicate deliverable decisions and enforce accountability.
- EBITDA and cash flow focus – challenge the status quo and demand innovation; drive revenue through our exclusive differentiators; continued commitment to cost efficiencies; efficient capital allocation to drive revenue growth.
- 8ta – provide innovative packages that allow people to talk more, are difficult to replicate and take advantage of the full range of telecommunication services that only an integrated fixed and mobile operator can offer.
- Drive broadband – through convergence and bundling; take advantage of the network built for the Soccer World Cup 2010.
- Multi-Links – exit the CDMA business.

While not exhaustive, the above five focus areas provide clarity for the organisation, demand transparency, responsiveness, courage and resilience and most importantly, are measurable.

Telkom's results for the six months ended 30 September 2010 paint a picture of an organisation under pressure with revenue down 5.4% to R17.6 billion, EBITDA down 0.6% to R5.1 billion and profit from continuing operations down 9.3% to R1.4 billion.

It is essential to stabilise the business, which we are doing through exiting the CDMA business in Nigeria, and focusing iWayAfrica mainly on corporate customers. This allows us to allocate capital to those areas that will drive revenue growth and promote cost efficiencies.

The introduction of our mobile service, 8ta, provides Telkom with an essential tool for retaining and growing our customer base. It is expected to assist in both revenue growth and cost efficiencies. We are excited by the response this emotive brand has generated and look forward to it complementing our suite of competitive products and services."

2. OPERATIONAL DATA

	for the six months ended 30 September		
	2009	**2010**	%
Telkom South Africa			
ADSL subscribers[1]	602,720	**699,368**	16.0
Calling plan subscribers	651,359	**762,070**	17.0
Closer subscribers	636,010	**738,396**	16.1
Supreme call subscribers	15,349	**23,674**	54.2
Fixed-line W-CDMA subscribers	8,744	**24,282**	177.7
WiMAX subscribers	3,201	**2,935**	(8.3)
Internet all access subscribers[2]	445,334	**535,794**	20.3
Fixed access lines ('000)[3]	4,398	**4,234**	(3.7)
Postpaid – PSTN	2,694	**2,592**	(3.8)
Postpaid – ISDN channels	785	**776**	(1.1)
Prepaid	797	**748**	(6.1)
Payphones	122	**118**	(3.3)
Fixed-line penetration rate (%)	8.9	**8.5**	(4.5)
Revenue per fixed access line (ZAR)	2,679	**2,374**	(11.4)
Total fixed-line traffic (millions of minutes)	11,785	**10,520**	(10.7)
Local	3,670	**2,929**	(20.2)
Long distance	1,656	**1,437**	(13.2)
Fixed-to-mobile	1,886	**1,816**	(3.7)
Fixed-to-fixed	20	**43**	115.0
International outgoing	307	**238**	(22.5)
International VoIP	22	**33**	50.0
Subscription based calling plans	1,869	**1,994**	6.7
Interconnection	2,355	**2,030**	(13.8)
Domestic mobile interconnection	1,184	**1,041**	(12.1)
Domestic fixed interconnection	333	**506**	52.0
International interconnection	838	**483**	(42.4)
Managed data network sites	29,842	**33,023**	10.7
Telkom Company employees	23,445	**23,013**	(1.8)
Fixed access lines per employee[4]	188	**184**	(2.1)
Multi-Links			
Active subscribers	2,055,550	**1,938,921**	(5.7)
CDMA	2,036,404	**1,865,767**	(8.4)
EVDO	18,692	**72,422**	287.4
Data leased lines	454	**732**	61.2
Total traffic (millions of minutes)	619	**440**	(28.9)
Estimated CDMA market share (%)	12.0	**11.2**	(6.7)
Market penetration (%)			
GSM (%)	87.5	**88.5**	1.1
CDMA (%)	13.1	**11.2**	(14.5)
Fixed (%)	1.9	**0.3**	(84.2)
Employees	1,060	**757**	(28.6)
Permanent	735	**537**	(26.9)
Expatriate	83	**53**	(36.1)
Temporary	242	**167**	(31.0)
Customer per employee	1,939	**2,561**	32.1
Other International			
iWayAfrica subscribers[5]	38,505	**26,816**	(30.4)
iWayAfrica employees[5]	652	**567**	(13.0)
Other South African			
Trudon employees	531	**520**	(2.1)
Swiftnet employees	99	**107**	8.1

1. *Excludes Telkom internal lines and includes business, consumer, corporate, government and wholesale customers.*
2. *Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.*
3. *Excludes Telkom internal lines.*
4. *Based on number of Telkom Company employees, excluding subsidiaries.*
5. *Excluding UUNet joint venture partner's subscribers and employees in Kenya.*

3. OPERATIONAL OVERVIEW

Telkom South Africa

Telkom South Africa remains focused on ensuring its competitiveness in terms of pricing, product and service mix. The competitive environment demands price decreases together with higher speed and service level increases. This places pressure on both revenue and investment in the network. In response Telkom South Africa continues to defend revenue through highlighting the value and quality offered by the fixed-line, developing innovative new products, growing annuity voice and data products and moving up the ICT value chain through Cybernest.

Following the launch of 8ta our focus into the future will be on offering fully converged products that marry mobile voice and data services with the quality and resilience of the fixed-line to both the enterprise and residential markets.

Voice revenue

Voice revenues declined 19.1% to R6.9 billion as a result of lower minutes of use and lower tariffs. Telkom elected to pass 100% of the benefit of the drop in mobile termination rates from 125 cents per minute to 89 cents per minute to its customers. Local voice revenue declined 10.8% to R1.5 billion, long distance voice revenue was down by 12.4% to R809 million, fixed-to-mobile revenue was down 24.0% to R2.5 billion and international outgoing revenue declined 19.9% to R378 million. Our continued drive to convert customers to annuity revenue streams saw revenue from subscription based calling plans grow 10.2% to R807 million. Voice annuity revenue, which includes line rental, calling plans, customer premise equipment rental and value added services grew 1.5% to R3.9 billion. Telkom Closer subscribers grew 16.1% to 738,396 and Supreme Call subscribers grew 54.2% to 23,674. Traffic revenue is also continuing to be converted to data revenue through our drive to grow Virtual Private Networks and managed network services.

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

Interconnection revenue

Interconnection revenue decreased 37.4% to R912 million reflecting the 41.1% decrease in mobile domestic interconnection revenue to R356 million, which includes mobile-to-fixed revenue (down 5.3% to R252 million) and international mobile outgoing revenue (down 69.2% to R104 million). The decline in mobile interconnection revenue is as a result of continuing mobile substitution and the sharp decline in international mobile outgoing revenue is as a result of lower volumes, especially on switched hubbing, due to operators using alternate international gateway providers. Fixed domestic interconnection revenue grew 118.8% to R210 million as Neotel gained further traction. International interconnection revenue declined 54.4% to R346 million as we are more selective with our switched hubbing revenue, which is impacted by exchange rates and decreased 76.2% to R116 million. International incoming revenue dropped 15.1% to R230 million.

Mobile and fixed-line termination rate developments

On 29 October 2010, ICASA published its final Call Termination Rate regulations for both fixed and mobile networks.

Vodacom and MTN are obliged to reduce call termination on their networks as follows:

	Peak	Off-peak
Current	R0.89	R0.77
1 March 2011	R0.73	R0.65
1 March 2012	R0.56	R0.52
1 March 2013	R0.40	R0.40

As from 1 March 2013 there will be no distinction between peak and off-peak rates in respect of call termination services.

Smaller market players – both 8ta and Cell C – may charge up to 20% more for call terminating on their networks between 1 March 2011 and 28 February 2012. Thereafter the maximum premium they may charge falls to 15% on 1 March 2012 and finally to 10% on 1 March 2013.

The regulation also reduces Telkom's fixed termination rates and removes the differentiation between peak and off-peak rates in respect of call termination services by 1 March 2013.

	Local calls		National calls	
	Peak	Off-peak	Peak	Off-peak
Current – calls from MCOs[1]	R0.29	R0.16	R0.29	R0.16
Current – calls from Neotel and VANS[2]	R0.23	R0.12	R0.33	R0.19
1 March 2011 – all operators	R0.20	R0.12	R0.28	R0.19
1 March 2012 – all operators	R0.15	R0.12	R0.25	R0.19
1 March 2013 – all operators	R0.12	R0.12	R0.19	R0.19

(1) Mobile Cellular Operators.
(2) Value Added Network Service Providers.

Telkom is pleased to have secured asymmetric mobile termination rates. Asymmetry is positive for 8ta and may or may not be positive for Telkom's fixed-line service depending on the level of pass through and traffic patterns.

The mobile termination rate cut from 125 cents per minute to 89 cents per minute effective from March 2010 resulted in Telkom's fixed-to-mobile voice revenue falling R640 million. Telkom elected to pass through 100% of the benefit of the reduction to its customers. Payments to other operators decreased R616 million resulting in a net loss for Telkom of R24 million.

Broadband and data revenue

Total data revenue increased 14.9% to R5,550 million despite significant price reductions with effect from 1 August 2009. Data connectivity services revenue increased 9.3% to R2,707 million which includes the 23.4% increase in ADSL revenue to R790 million. Leased line revenue increased 13.5% to R1,116 million. Mobile leased line revenue continues to grow healthily, despite self-provisioning, reflecting the growing demand for bandwidth. Internet access and related services revenue increased 13.5% to R986 million and managed data network services revenue increased 37.3% to R641 million. Managed network sites grew 10.7% to 33,023.

ADSL subscribers increased 16.0% to 699,368 when compared to the 30 September 2009 reporting period. Broadband remains a growth area for Telkom and more capital is being allocated to this revenue stream. 10 Mbps services and new PC broadband bundles have been launched. Telkom Simple, a campaign offering fast internet, free landline calls and free installation for R369 per month will run from 12 September 2010 to 15 December 2010. Telkom continues to aggressively promote its broadband packages through focusing our marketing efforts on particular customer groupings and the up-selling of the higher end broadband packages which offer substantial value. We have also put in maximum effort to promote entry-level ADSL packages with extremely competitive pricing. We continue to make every effort to increase the bandwidth available to our customers.

Telkom is facing stiff competition on price for traditional data services. We continue to maximise the benefit of our capacity and ability to provide quality and security. We are also offering innovative products and services using the intelligence of our next generation network. We are focusing on differentiating our service. Our differentiators include the reliability of our comprehensive service level agreements that are flexible and can be designed to match customer requirements. Other differentiators that we are working towards include: providing full communication and converged solutions, including mobility and data centre services that offer value and are clean and simple to understand.

Cost management

Operating expenditure decreased 6.3% to R15.1 billion. This was largely as a result of the reduction in payment to other operators of 28.6% to R3,057 million. Employee expenses increased 10.0% to R4,853 million as a result of the 7.5% annual salary increase and R144 million workforce reduction expenses. Selling, general and administrative expenses decreased 10.5% to R2,848 million due to lower inventory write-offs, service fees increased 5.3% to R1,411 million mainly due to electricity increases and operating leases grew 11.0% to R526 million due to higher cell site leases in Multi-Links. Also included in operating expenditure is R205 million relating to 8ta operational expenditure.

Telkom is firmly committed to reducing its costs. This must be done in a manner to ensure sustainable, long term benefits. All elements of our operating model – network and IT, marketing, channel and customer, corporate services – have been examined and cost saving projects have been initiated. Excluding payments to other operators, depreciation, amortisation, impairments and write-offs, mobile operating expenditure of R205 million and the R144 million workforce reduction expenses, operating expenses decreased by 1.3%. We are continuing to explore and execute on all cost efficiency opportunities.

We have continued optimising staff vacancies through natural attrition and have been actively managing overtime and contractor spending in order to manage costs as far as possible. We launched voluntary separation packages for management employees with 186 employees approved to take advantage of the packages at a cost of R144 million. The benefits of the reduction in employee expenses are expected in the second half of the 2011 financial year.

8ta – Telkom's mobile service

8ta was successfully launched on 18 October 2010. On 18 November 2010 8ta had signed up 186,033 new customers, all of whom comply with RICA.

8ta's approach is one of simplicity, quality, value and authenticity. We intend to be innovative and aggressive but rational. We provide differentiated products and pricing, which are difficult to replicate, and importantly, encourage primary SIM usage.

As promised, Telkom launched post paid products on 8 November 2010 and intends to launch fully converged products to corporate and consumers in the first half of the 2011 calendar year. Competitors have yet to replicate our offer at a rate of 65c for calls terminating on Telkom's fixed-line network. This will provide an attractive incentive to corporate customers in future.

Telkom has existing distribution channels and points of presence that are used for the distribution of Telkom WorldCall and pre-paid cards. We have simply added another product – 8ta – to this existing distribution channel and gone further to secure additional national distribution partners. 8ta is working with 51 dealers with 3,000 points of

presence around South Africa. We have also ensured that we are able to reach deeply into semi-urban and rural areas through the use of independent micro distributors.

8ta has constructed 800 base stations. As previously announced, we are working through an order to build a further 2,000 base stations. In addition, we are using the avenues of co-location and infrastructure sharing as much as possible to reduce the extent of our capital outlay.

Telkom is at an inflection point with growth in traditional fixed-line voice revenues declining. We believe that there is a market opportunity in South Africa as mobile voice and especially mobile data are still experiencing growth. Telkom has a competitive advantage by virtue of its existing business and customer base. This is particularly so as wireless voice growth slows and converged data becomes more prevalent. A product range spanning both mobile and fixed value pools will assist Telkom to defend itself more effectively against competitors and to grow revenues. The mobile business is designed to also assist Telkom in addressing fixed-line cost challenges and to position Telkom more competitively in the market. To this end Telkom will undertake best endeavours to attain the market share required to achieve its required IRR.

Telkom also plans to use mobile technology to offer fixed-line services in areas where Telkom is experiencing operational challenges such as copper theft, breakages, slow copper roll-out to new greenfield areas, etc. This will assist the company in being more responsive to its customers' needs.

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

Cybernest

Cybernest has been in operation for a year and has gained considerable traction in the market. While the majority of the R614 million revenue achieved in the six months to 30 September 2010 is generated from Telkom, non-Telkom revenue has increased 94.7% from a low base to R37 million.

There has been pleasing interest from businesses wishing to outsource part or all of their IT infrastructure and services. Various industry verticals, particularly mining and retail, have displayed a keen interest to focus on their core business and this has afforded Cybernest the opportunity to secure a number of notable deals ranging from hosting, storage, security, disaster recovery and messaging. In addition, Cybernest has managed to secure two total outsource deals, a considerable achievement given that total outsourcing was planned to commence towards the end of this financial year. The average size of deal won is increasing as our credibility grows with customers moving towards Cybernest fully owning their infrastructure on either a shared or dedicated basis, and providing managed services out of our facilities.

Cybernest has afforded the Telkom Group the opportunity of decreasing non-standard and non-useful infrastructure through the promotion of industrialised infrastructures and technologies and increased automation. The sharing of resources and merging of operating teams has also allowed headcount to grow more slowly than activities. Cybernest continues to focus on key partnerships with various industry leaders in order to offer tailor made solutions to the market that are cost effective, efficient and reliable.

Trudon

Trudon's revenue increased by 1.4% to R647 million while EBITDA declined 8.1% to R305 million. Operating profit decreased 8.9% to R287 million.

The core printed directories business has reached maturity in South Africa as evidenced by the reduction in Trudon's revenue growth. In the European and United States markets, directory businesses are in decline. To combat this decline, directory businesses are growing their presence in the online search arena. In this arena Google is the dominant player and is a formidable competitor.

In addition, directory companies are trying to build or access content via multi-platforms including mobile and online. Directory companies have moved away from their traditional core focus into areas where they are not the dominant players, for example online search and advertising.

To keep pace with the changes in the marketplace, Trudon is busy evolving from being a publisher of traditional print products to being a local search solutions provider. Print usage by subscribers has reduced and younger users access information primarily through internet and mobile channels, rather than printed white or yellow pages. Trudon has no choice but to follow this migration and build up its capabilities and capacity to offer these products. The online expansion will require capital investment and we anticipate capital investment of approximately R110 million over the following two financial years.

Multi-Links

Operating revenue decreased 9.0% to R744 million and operating expenses decreased 15.4% to R1,008 million. The loss from operating activities improved by 29.4% to a loss of R262 million.

Multi-Links incurred R158 million of capital expenditure for the six months ended 30 September 2010. The expenditure mainly relates to the completion of assets under construction. The net asset value has been impaired by a further R201 million.

The Telkom Group board has mandated management to review options for the exit of the CDMA business. We have received a number of expressions of interest which will be evaluated and quantified over the next quarter.

The backbone network which includes 4,639 km of Multi-Links owned fibre and a further 2,034 km of fibre through swap arrangements, has performed well in the six months under review with data leased lines growing 61.2% to 732 lines.

Guidance

Capital expenditure for the Group is expected to range between 20% and 25% of revenue over the current financial year including the impact of our mobile investment. Given the current run rate, the Telkom Group may deliver a capital expenditure to revenue ratio at the lower end of the stated guidance.

The targeted ceiling net debt to EBITDA is aimed at a maximum of 1.4 times. In the short term we will operate at lower levels pending the cash outflows associated with the mobile related capital expenditure.

4. FINANCIAL PERFORMANCE

The Telkom Group believes that normalised earnings more accurately reflect the Group's operational performance.

Unless otherwise indicated, the discussion below is based on normalised results, excluding the items below, and is based on continuing operations.

The statement of comprehensive income for the six months ended 30 September 2010 has been adjusted to remove the effects of the impact of the Soccer World Cup contract entered into with the Department of Communications, the amortisation of the FIFA brand intangible asset, the impairment of the net asset value of Multi-Links, and fair value gain on the Vodacom shares held.

The statement of comprehensive income for the six months ended 30 September 2009 has been adjusted to remove the effects of the sale and unbundling of our 50% share in Vodacom, the profit on sale of Telkom Media, the impairment of Multi-Links, the impact of the Soccer World Cup contract entered into with the Department of Communications and the amortisation of the FIFA brand intangible asset to enable year on year comparison.

The impact of the items discussed above on Group earnings as reported is as follows:

Reconciliation of normalised group statement of comprehensive income

Continuing operations In ZAR millions	Restated September 2009	Effects of Vodacom transaction	Other unusual items	**Normalised September 2009**	Reported September 2010	Other unusual items	**Normalised September 2010**	Variance %
Operating revenue	18,761		(153)[6]	**18,608**	17,667	(63)[6]	**17,604**	(5.4)
Other income	18,814	(18,535)[1]	(68)[7]	**211**	184	–	**184**	(12.8)
Operating expenses	19,418	(946)	(2,341)	**16,131**	15,417	(304)	**15,113**	6.3
Employee expenses	5,359	(946)[2]	–	**4,413**	4,853		**4,853**	(10.0)
Payments to other operators	4,284	–	–	**4,284**	3,057		**3,057**	28.6
Selling, general and administrative expenses	3,335	–	(153)[6]	**3,182**	2,911	(63)[6]	**2,848**	10.5
Service fees	1,340	–	–	**1,340**	1,411		**1,411**	(5.3)
Operating leases	474	–	–	**474**	526		**526**	(11.0)
Depreciation, amortisation, impairment and write-offs	4,626	–	(2,188)[8]	**2,438**	2,659	(241)[10]	**2,418**	0.8
Results from operating activities	18,157	(17,589)	2,120	**2,688**	2,434	241	**2,675**	(0.5)
Investment income	280	–	–	**280**	133		**133**	(52.5)
Gain on distribution of asset	25,688	(25,688)[3]	–	**–**	–		**–**	–
Finance charges and fair value movements	794	(166)	–	**628**	659	25	**684**	(8.9)
Interest	749	–	–	**749**	514		**514**	31.4
Foreign exchange and fair value movement	45	(166)[4]	–	**(121)**	145	25[4]	**170**	240.5
Profit before taxation	43,331	(43,111)	2,120	**2,340**	1,908	216	**2,124**	(9.2)
Taxation	3,700	(2,751)[5]	(135)[9]	**814**	830	(90)[9]	**740**	9.1
Profit from continuing operations	39,631	(40,360)	2,255	**1,526**	1,078	306	**1,384**	(9.3)
EBITDA				**5,126**			**5,093**	(0.6)
EBITDA margin (%)				**27.5**			**28.9**	5.1
Basic earnings per share – continuing operations	7,860.9			**279.0**	198.6		**260.2**	(6.8)
Headline earnings per share – continuing operations	(160.2)			**280.6**	243.5		**265.7**	(5.3)
Rand/Naira exchange rate								
Closing rate at beginning of the year				**N15.56**			**N19.60**	26.0
Closing rate at end of the period				**N19.60**			**N22.17**	13.1
Period average rate (Source: Reuters)				**N18.63**			**N20.35**	9.2

1. *Profit on disposal of our 15% share of Vodacom.*
2. *Compensation expense recognised in terms of IFRS2 relating to the amendment of the Telkom Conditional Share Plan.*
3. *Gain on distribution of our 35% share in Vodacom.*
4. *Fair value (loss)/gain on the Vodacom shares held.*
5. *Includes R1,353 million capital gains taxation on the sale of Vodacom, R977 million secondary taxation on companies on the R19 special dividend and R421 million reversal of the deferred tax asset raised.*
6. *Revenue and expenses recognised on the contract entered into with the Department of Communications for the Soccer World Cup.*
7. *Profit on sale of Telkom Media.*
8. *Includes R2,148 million impairment of Multi-Links goodwill and R40 million amortisation of the FIFA brand intangible asset.*
9. *Secondary taxation on the special dividend.*
10. *Includes R201 million impairment of Multi-Links assets and R40 million amortisation of the FIFA brand intangible asset.*

GROUP OPERATING REVENUE

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Telkom South Africa	16,854	**15,905**	(5.6)
Multi-Links	818	**744**	(9.0)
Other International	234	**222**	(5.1)
iWayAfrica	234	**222**	(5.1)
Other South African	733	**1,356**	85.0
Trudon	638	**647**	1.4
Swiftnet	54	**61**	13.0
Data Centre Operations	19	**614**	–
Corporate centre	22	**34**	54.5
Eliminations	(31)	**(623)**	–
Total	18,608	**17,604**	(5.4)

Group operating revenue decreased by 5.4% to R17,604 million (30 September 2009: R18,608 million) in the six months ended 30 September 2010. The decrease is mainly due to the 100% pass through to customers of the reduction in mobile termination rates, lower switched hubbing volumes and a decline in Multi-Links's voice revenue as a result of lower voice traffic volumes and higher churn. Data Centre Operations includes R577 million of revenue from Telkom SA in terms of the transfer pricing policy effective from 1 April 2010. This revenue is eliminated on consolidation.

Telkom South Africa operating revenue

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Subscriptions and connections	3,344	**3,300**	(1.3)
Traffic	7,126	**6,032**	(15.4)
Local	1,637	**1,461**	(10.8)
Long distance	923	**809**	(12.4)
Fixed-to-mobile	3,347	**2,543**	(24.0)
Fixed-to-fixed	15	**34**	126.7
International outgoing	472	**378**	(19.9)
Subscription based calling plans	732	**807**	10.2
Interconnection	1,458	**912**	(37.4)
Mobile	604	**356**	(41.1)
Fixed	96	**210**	118.8
International	758	**346**	(54.4)
Data	4,830	**5,550**	14.9
Leased lines and other	3,847	**4,434**	15.3
Mobile leased facilities	983	**1,116**	13.5
Other	96	**111**	15.6
Total	16,854	**15,905**	(5.6)

Operating revenue from the Telkom South Africa segment decreased by 5.6% to R15,905 million (30 September 2009: R16,854 million) primarily due to lower fixed-to-mobile traffic revenue and lower international and mobile interconnection revenue, partially offset by growth in data revenues.

Subscription and connections revenue decreased by 1.3% to R3,300 million (30 September 2009: R3,344 million) largely as a result of a decrease in the number of postpaid and prepaid access lines.

Traffic revenue decreased by 15.4% mainly due to a reduction in mobile termination rates and lower fixed-to-mobile volumes due to the increasing substitution of calls placed using mobile services rather than fixed-line services. This was partially offset by an increase in revenue from subscription based calling plans by 10.2% to R807 million primarily due to increased volumes as a result of a 17.0% increase in the number of subscribers to 762,070 (30 September 2009: 651,359).

Interconnection revenue decreased by 37.4% to R912 million (30 September 2009: R1,458 million) largely as a result of a decrease of 54.4% in international interconnection revenue and a 41.1% decrease in mobile interconnection revenue. International interconnection revenue decreased primarily due to lower volumes on switched hubbing. The decrease in mobile interconnection revenue is mainly as a result of the decrease in mobile termination rates. Fixed interconnection revenue increased mainly due to increased volumes from Neotel and VANS.

Data revenue increased 14.9% to R5,550 million (30 September 2009: R4,830 million) mainly due to revenue generated by the Soccer World Cup, a growing demand for services, including ADSL, a 13.5% increase in revenue from leased line facilities to mobile operators, growth in managed data network services and an increase in internet access and related services.

Multi-Links operating revenue

In Naira millions	for the six months ended 30 September 2009	**2010**	%
Subscriptions and connections	1,881	**1,538**	(18.2)
Traffic	8,745	**6,590**	(24.6)
Interconnection	3,499	**5,013**	43.3
Data	1,200	**1,910**	59.2
Directories and other	–	**14**	–
Total	15,325	**15,065**	(1.7)

Multi-Links operating revenue decreased by 1.7% to 15,065 million Naira (30 September 2009: 15,325 million Naira).

Subscriptions and connections revenue decreased 18.2% due to the termination of access fees as a result of increased competition. Traffic revenue decreased 24.6% mainly due to a decrease in traffic volumes and higher churn rates during the period under review.

Interconnection revenue increased 43.3% due to the introduction of hubbing revenue through a new line of business, namely International Carrier Services.

Multi-Links' increased focus on data services resulted in a 59.2% increase in data revenue mainly due to an increase in equivalent 2 megabit circuit services and the expansion of mobile broadband (EVDO) services.

GROUP OTHER INCOME

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Telkom South Africa	162	**155**	(4.3)
Multi-Links	2	**2**	–
Other International	–	**22**	–
iWayAfrica	–	**9**	–
Telkom International	–	**13**	–
Other South African	213	**64**	(70.0)
Trudon	27	**19**	(29.6)
Swiftnet	3	**2**	(33.3)
Corporate centre	183	**43**	(76.5)
Eliminations	(166)	**(59)**	(64.5)
Total	211	**184**	(12.8)

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets as well as interest received from debtors and on loans to subsidiaries. Interest received from subsidiaries was significantly lower for the six months ended 30 September 2010 due to the impairment of the Multi-Links loans as well as part of the Multi-Links loan being interest free from 30 September 2009 onwards. Interest received from subsidiaries is eliminated on consolidation. The decrease in other income after elimination is as a result of lower interest received from debtors due to the lowering of the interest rate charged.

GROUP OPERATING EXPENSES

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Employee expenses	4,413	**4,853**	(10.0)
Payments to other operators	4,284	**3,057**	28.6
Selling, general and administrative expenses	3,182	**2,848**	10.5
Service fees	1,340	**1,411**	(5.3)
Operating leases	474	**526**	(11.0)
Depreciation, amortisation, impairments and write-offs	2,438	**2,418**	0.8
Total	16,131	**15,113**	6.3

Group operating expenses decreased by 6.3% to R15,113 million (30 September 2009: R16,131 million) in the six months ended 30 September 2010, primarily due to a decrease in payments to other operators partially offset by an increase in employee expenses. The decrease in payments to other operators is mainly due to the reduction in mobile termination rates and lower international switched hubbing volumes in Telkom South Africa. The increase in employee expenses is due to the increase in salaries and wages in Telkom South Africa as a result of the 7.5% annual salary increase negotiated with the unions and workforce reduction expenses of R144 million incurred. Lower selling, general and administrative expenses are mainly attributable to lower inventory write offs in the corporate centre. Operating leases increased largely as a result of Multi-Links's increased utilisation of leased cell sites.

Operating expenditure contribution per segment

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Telkom South Africa	12,591	**12,411**	1.4
Multi-Links	1,191	**1,008**	15.4
Other International	275	**308**	(12.0)
iWayAfrica	238	**276**	(16.0)
Telkom International	33	**17**	48.5
Telkom Management Services	4	**15**	(275.0)
Other South African	2,119	**2,042**	3.6
Trudon	350	**379**	(8.3)
Swiftnet	55	**56**	(1.8)
Data Centre Operations	480	**516**	(7.5)
Corporate centre	1,234	**1,091**	11.6
Eliminations	(45)	**(656)**	–
Total	16,131	**15,113**	6.3

The 6.3% decrease in group operating expenses was primarily driven by a decrease in Telkom SA's payments to other operators resulting from the decrease in mobile termination rates, the decrease in Multi-Links's depreciation as a result of the impairment of assets in March 2010 and lower inventory write downs in Corporate centre.

Telkom South Africa operating expenses (excluding mobile expenditure)

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Employee expenses	3,550	**3,851**	(8.5)
Salaries and wages	2,846	**2,958**	(3.9)
Benefits	987	**990**	(0.3)
Workforce reduction expenses	–	**103**	–
Employee related expenses capitalised	(283)	**(200)**	29.3
Payments to other network operators	3,929	**2,659**	32.3
Payment to mobile operators	2,524	**1,848**	26.8
Payment to international operators	1,273	**574**	54.9
Payment to fixed-line operators	132	**237**	(79.5)
Selling, general and administrative expenses	1,771	**1,713**	3.3
Materials and maintenance	1,033	**939**	9.1
Marketing	120	**138**	(15.0)
Bad debts	145	**255**	(75.9)
Other	473	**381**	19.5
Service fees	1,085	**1,646**	(51.7)
Property management	624	**667**	(6.9)
Consultants and security	461	**979**	(112.4)
Operating leases	316	**327**	(3.5)
Depreciation, amortisation, impairments and write-offs	1,940	**2,010**	(3.6)
Depreciation	1,687	**1,700**	(0.8)
Amortisation	231	**260**	(12.6)
Impairments and write-offs	22	**50**	(127.3)
Total	12,591	**12,206**	3.1

Telkom South Africa's operating expenses, excluding mobile expenditure, decreased by 3.1% in the six months ended 30 September 2010, to R12,206 million (2009: R12,591 million), primarily due to lower payments to international operators as a result of lower volumes on switched hubbing and lower payments to mobile operators due to the reduction in mobile termination rates, partially offset by higher consultants and security costs.

Employee expenses increased by 8.5% in the six months ended 30 September 2010, primarily due to higher salaries and wages as a result of average annual salary increases of 7.5% as agreed with the unions as well as workforce reduction expenses of R103 million incurred for management employees, partially offset by lower headcount.

Payments to international network operators decreased 54.9% due to lower volumes on switched hubbing and mobile international traffic. Payments to mobile operators decreased 26.8%, largely due to a 28.8% reduction in mobile termination rates with effect from 1 March 2010. The decrease in mobile termination rates contributed to a R640 million decrease in fixed-to-mobile revenue and a R616 million decrease in payments to mobile operators.

Selling, general and administrative expenses decreased by 3.3% primarily as a result of lower materials and maintenance resulting from cost saving initiatives, lower provision for licence fees due to lower gross profit partially offset by higher bad debt.

Service fees increased by 51.7% primarily due to a R517 million intercompany charge by Cybernest for services performed as the transfer pricing policy was introduced on 1 April 2010. This cost is eliminated on consolidation. Higher property management fees as a result of electricity increases also contributed to the increase.

Mobile operating expenses (part of Telkom South Africa operating expenses but excluded from above)

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Employee expenses	–	**49**	–
Payments to other network operators	–	**–**	–
Selling, general and administrative expenses	–	**117**	–
Service fees	–	**37**	–
Operating leases	–	**2**	–
Depreciation, amortisation, impairments and write-offs	–	**–**	–
Total	–	**205**	–

8ta employed 180 employees at 30 September 2010. Selling, general and administrative expenses relate mostly to network maintenance and marketing expenses in preparation for the launch. Service fees relate to consultants assisting with the implementation of the business plan.

Multi-Links operating expenses

In Naira millions	for the six months ended 30 September 2009	**2010**	%
Employee expenses	1,138	**1,106**	2.8
Payments to other network operators	5,131	**5,135**	(0.1)
Selling, general and administrative expenses	9,718	**9,314**	4.2
Service fees	169	**369**	(118.3)
Operating leases	2,290	**3,184**	(39.0)
Depreciation, amortisation, impairments and write-offs	3,855	**1,250**	67.6
Total	22,301	**20,358**	(8.7)

Employee expenses decreased by 2.8% in the six months ended 30 September 2010, primarily as a result of the headcount optimisation programme.

Payments to other operators increased 0.1% mainly due to the increase of 1.8 billion Naira in hubbing expenses. This was offset by a decrease of 1.7 billion Naira in interconnection charges which arose as a result of a decline in off-net traffic and the introduction of the new NCC regulatory interconnection regime.

Selling, general and administrative expenses decreased 4.2% as a result of lower inventory write downs partially offset by higher bad debt. Handset subsidies totalled 2,867 million Naira and is included in selling, general and administrative expense.

Service fees increased significantly mainly due to the use of consultants for short term projects rather than appointing permanent staff.

Operating leases increased 39.0% as a result of increased utilisation of leased infrastructure, specifically relating to cell sites rental to support sales and marketing strategy.

Depreciation, amortisation, impairments and write-offs decreased significantly as a result of the impairment of Multi-Links assets on 31 March 2010.

EBITDA PER SEGMENT

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Telkom South Africa	6,365	**5,659**	(11.1)
EBITDA margin (%)	37.8	**35.6**	
Multi-Links	(164)	**(201)**	(22.6)
EBITDA margin (%)	(20.0)	**(27.0)**	
Other International	(10)	**(38)**	(280.0)
EBITDA margin (%)	(4.3)	**(17.1)**	
Other South African	(923)	**(306)**	66.8
EBITDA margin (%)	(125.9)	**(22.6)**	
Eliminations	(142)	**(21)**	85.2
Total	5,126	**5,093**	(0.6)

INVESTMENT INCOME

Investment income consists of interest received on short term investments and bank accounts. Investment income decreased by 52.5% to R133 million (30 September 2009: R280 million), largely as a result of lower cash balances and short term deposits.

FINANCE CHARGES AND FAIR VALUE MOVEMENTS

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses on foreign currency denominated transactions and balances. Finance charges and fair value movements decreased by 8.9% to R684 million (30 September 2009: R628 million) in the six months ended 30 September 2010, primarily due to a 31.4% decrease in interest expense to R514 million (30 September 2009: R749 million) mainly as a result of the 11.0% decrease in the Group's net debt to R6.8 billion (30 September 2009: R7.7 billion) and lower interest rates. Net fair value and foreign exchange rate movements resulted in a loss of R170 million for the six months ended 30 September 2010 (30 September 2009: gain of R121 million). Higher fair value and exchange rate losses were incurred due to the mark to market valuation of forward exchange contracts and interest rate swap agreements as a result of the strengthening of the Rand, particularly against the US dollar, and lower interest rates.

TAXATION

The consolidated tax expense from continuing operations decreased to R740 million (30 September 2009: R814 million). The consolidated effective tax rate for the six months ended 30 September 2010 was 34.8% (30 September 2009: 34.8%).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's financial position remains strong. Net debt, after financial assets and liabilities, from continuing operations increased by 44.6% to R6,828 million from R4,723 million as at 31 March 2010 resulting in a net debt to EBITDA ratio of 0.7 times from 0.5 times at 31 March 2010. On 30 September 2010, the Group had cash balances of R736 million (31 March 2010: R3.8 billion). The proceeds retained from the Vodacom transaction contributed to the higher balances as at 31 March 2010.

The decrease in cash is mainly attributable to the repayment of private placings debt instruments with a nominal value of R1,780 million on maturity and the dividend payment of R3 per share.

The Group's working capital improved from negative working capital of R50 million as at 31 March 2010 to positive working capital of R769 million, mainly due to a R1.2 billion reduction in trade and other payables and a R1.2 billion reduction in short term provisions. The reduction in trade and other payables is attributable to the reduction in capital expenditure and the reduction in short term provisions is primarily as a result of the R608 million payment made to Telcordia for the supplier dispute, a decrease in the provision for bonuses due to the payment in June 2010 as well as a decrease in the short term provision for post-retirement medical benefits for the six month period vs 12 months in March 2010.

NORMALISED FREE CASH FLOW

	for the six months ended 30 September		
In ZAR millions	2009	**2010**	%
Cash generated from operations	2,021	**1,883**	(6.8)
Add back: Half of Vodacom capital gains tax	677	**–**	–
Add back: STC on special dividend	1,112	**90**	(91.9)
Add back: Payment to Telcordia	–	**608**	–
Add back: Employee reduction expenses	–	**144**	–
Less: Cash flows from investing activities excluding Vodacom proceeds	(3,199)	**(2,102)**	(34.3)
Normalised free cash flow	611	**623**	2.0
Mobile operating expenditure	–	**205**	–
Mobile capital expenditure	–	**614**	–
Normalised fixed-line free cash flow	611	**1,442**	136.0

Excluding the effects of the R608 million payment to Telcordia regarding the supplier dispute, STC on the special dividend and employee reduction expenses the Group's free cash flow increased 2.0% to R623 million from R611 million as at 30 September 2009. The inclusion of R205 million operating expenditure and R614 million capital expenditure relating to start up costs of the mobile business decreased free cash flow. Excluding the effects of the mobile business the fixed-line free cash flow increased 136.0% to R1,442 million.

GROUP CAPITAL EXPENDITURE

Group capital expenditure, which includes spend on intangible assets, decreased by 21.6% to R2,165 million (30 September 2009: R2,762 million) and represents 12.3% of Group revenue (30 September 2009: 14.8%).

	for the six months ended 30 September		
In ZAR millions	2009	**2010**	%
Telkom South Africa	1,914	**1,903**	(0.6)
Multi-Links	709	**158**	(77.7)
Other International	25	**13**	(48.0)
iWayAfrica	21	**8**	(61.9)
Telkom International	4	**5**	25.0
Other South African	114	**91**	(20.2)
Trudon	28	**28**	–
Swiftnet	7	**9**	28.6
Data Centre Operations	53	**42**	(20.8)
Corporate centre	26	**12**	(53.8)
Total	2,762	**2,165**	(21.6)

The decrease in capital expenditure was mainly driven by a decrease in the capital expenditure of Multi-Links.

Telkom South Africa capital expenditure

In ZAR millions	for the six months ended 30 September 2009	**2010**	%
Baseline	1,160	**815**	(29.7)
Revenue generating	1	**614**	–
Network evolution	424	**239**	(43.6)
Sustainment	16	**30**	87.5
Effectiveness and efficiency	193	**87**	(54.9)
Support	107	**99**	(7.5)
Regulatory and other	13	**19**	46.2
Total	1,914	**1,903**	(0.6)

Telkom South Africa's capital expenditure, which includes spending on intangible assets, decreased by 0.6% to R1,903 million (30 September 2009: R1,914 million) and represents 12.0% of Telkom South Africa's revenue (30 September 2009: 11.4%).

Baseline capital expenditure of R815 million (30 September 2009: R1,160 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and business areas. The lower expenditure for the period can be attributed to a more measured approach to the rollout of infrastructure to meet short term demand and revenue generating services. The continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network contributed to the network evolution and sustainment capital expenditure.

The significant increase in revenue generating capital expenditure was as a result of the mobile business case. We have constructed 800 base stations by the launch date on 18 October 2010.

The decrease in expenditure on network evolution was mainly because the project for the deployment of automated restoration functionality for the National Transport Network, the provisioning of bandwidth for the Soccer World Cup and for future national capacity growth requirements was largely concluded in the 2009 financial year.

Telkom continues to focus on its operations support systems with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care, hardware technology upgrades on the enterprise networks and performance and service management and property optimisation. During the six months ended 30 September 2010, R87 million (30 September 2009: R193 million) was spent on the implementation of several systems.

The support capital expenditure of R99 million (30 September 2009: R107 million) is mainly for provision of new buildings and building extensions in support of network growth and for the development and upgrading of existing equipment buildings, including the associated AC power and air conditioning.

The expenditure on regulatory requirements is primarily for a system to store and manage customer identification documentation and for the initial phase of the Number Portability project.

TELKOM SA LIMITED GROUP INTERIM RESULTS

for the six months ended 30 September 2010

TABLE OF CONTENTS

SECTION 3

Auditors' Review Report

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

Condensed consolidated interim statement of comprehensive income

for the six months ended 30 September 2010

	Notes	Restated* 30 September 2009 Rm	**Reviewed 30 September 2010 Rm**
Continuing operations			
Total revenue	3	19,226	**17,973**
Operating revenue		18,761	**17,667**
Other income	4	18,814	**184**
Operating expenses		19,418	**15,417**
Employee expenses	5.1	5,359	**4,853**
Payments to other operators	5.2	4,284	**3,057**
Selling, general and administrative expenses	5.3	3,335	**2,911**
Service fees		1,340	**1,411**
Operating leases	5.4	474	**526**
Depreciation, amortisation, impairment and write-offs	5.5	4,626	**2,659**
Results from operating activities		18,157	**2,434**
Investment income		280	**133**
Gain on distribution of assets	4	25,688	**–**
Finance charges and fair value movements	6	794	**659**
Interest		749	**514**
Foreign exchange and fair value movement		45	**145**
Profit before taxation		43,331	**1,908**
Taxation	7	3,700	**830**
Profit from continuing operations		39,631	**1,078**
Profit from discontinued operation		106	**–**
Profit for the period		39,737	**1,078**
Other comprehensive income			
Exchange differences on translating foreign operations		(1,587)	**(77)**
Realised exchange differences on translating foreign operations		(189)	**–**
Available-for-sale investment		8	**–**
Defined benefit plan actuarial gains/(losses)		732	**(236)**
Defined benefit plan asset limitations		(722)	**123**
Income tax relating to components of other comprehensive income	8	323	**32**
Other comprehensive income for the year, net of taxation		(1,435)	**(158)**
Total comprehensive income		38,302	**920**
Profit attributable to:			
Owners of Telkom		39,661	**1,009**
Non-controlling interest		76	**69**
Profit for the period		39,737	**1,078**
Total comprehensive income attributable to:			
Owners of Telkom		38,226	**851**
Non-controlling interest		76	**69**
Total comprehensive income for the period		38,302	**920**
Total operations			
Basic earnings per share (cents)	9	7,882.0	**198.6**
Diluted earnings per share (cents)	9	7,865.8	**198.6**
Continuing operations			
Basic earnings per share (cents)	9	7,860.9	**198.6**
Diluted earnings per share (cents)	9	7,844.8	**198.6**

** The amounts have been restated for the effect of Swiftnet (Proprietary) Limited no longer being classified as a disposal group held for sale.*

Condensed consolidated interim statement of financial position

at 30 September 2010

	Notes	Audited 31 March 2010 Rm	**Reviewed 30 September 2010 Rm**
Assets			
Non-current assets		44,518	**43,797**
Property, plant and equipment		37,938	**37,585**
Intangible assets		4,338	**4,112**
Investments		1,437	**1,534**
Deferred expenses		156	**145**
Other financial assets		341	**153**
Finance lease receivables		250	**217**
Deferred taxation		58	**51**
Current assets		12,301	**9,153**
Inventories		1,274	**1,299**
Income tax receivable		2	**8**
Current portion of deferred expenses		48	**42**
Current portion of finance lease receivables		109	**109**
Trade and other receivables		5,981	**6,049**
Other financial assets		1,032	**821**
Cash and cash equivalents	12	3,855	**825**
Total assets		56,819	**52,950**
Equity and liabilities			
Equity attributable to owners of the parent		29,925	**29,346**
Share capital		5,208	**5,208**
Treasury shares	13	(1,171)	**(770)**
Share-based compensation reserve*		2,060	**–**
Non-distributable reserves		620	**629**
Retained earnings		23,208	**24,279**
Non-controlling interests		339	**336**
Total equity		30,264	**29,682**
Non-current liabilities		14,204	**14,884**
Interest-bearing debt	14	7,925	**7,899**
Other financial liabilities		19	**95**
Provisions	15	4,355	**4,866**
Deferred revenue		1,068	**1,142**
Deferred taxation		837	**882**
Current liabilities		12,351	**8,384**
Trade and other payables	16	5,549	**4,334**
Shareholders for dividend		23	**22**
Current portion of interest-bearing debt	14	1,812	**390**
Current portion of provisions	15	2,556	**1,307**
Current portion of deferred revenue		2,051	**1,861**
Income tax payable		165	**227**
Other financial liabilities		133	**154**
Credit facilities utilised	12	62	**89**
Total liabilities		26,555	**23,268**
Total equity and liabilities		56,819	**52,950**

** Share-based compensation reserve has been transferred to retained earnings as a result of the final vesting that occurred during the period ended 30 September 2010.*

Condensed consolidated interim statement of changes in equity

for the six months ended 30 September 2010

	Reviewed 30 September 2009 Rm	**Reviewed 30 September 2010 Rm**
Balance at 1 April	35,495	**30,264**
Attributable to owners of Telkom	34,642	**29,925**
Non-controlling interests	853	**339**
Total comprehensive income for the period	38,302	**920**
Profit for the period	39,737	**1,078**
Other comprehensive income	(1,435)	**(158)**
Exchange differences on translating foreign operations	(1,261)	**(77)**
Realised exchange differences on translating foreign operations	(189)	**–**
Available-for-sale investment	8	**–**
Net defined benefit plan losses and asset limitations	7	**(81)**
Dividend paid	(41,711)	**(1,588)**
Increase in share-based compensation reserve	1,123	**86**
Reserves derecognised on disposal of Vodacom	(553)	**–**
Balance at 30 September	32,656	**29,682**
Attributable to owners of Telkom	32,335	**29,346**
Non-controlling interests	321	**336**

Condensed consolidated interim statement of cash flows

for the six months ended 30 September 2010

	Reviewed 30 September 2009 Rm	**Reviewed 30 September 2010 Rm**
Cash flows from operating activities	(9,211)	**294**
Cash receipts from customers	17,814	**17,658**
Cash paid to suppliers and employees	(13,693)	**(14,979)**
Cash generated from operations	4,121	**2,679**
Interest received	280	**270**
Finance charges paid	(313)	**(377)**
Taxation paid	(2,067)	**(689)**
Cash generated from operations before dividend paid	2,021	**1,883**
Dividend paid	(11,232)	**(1,589)**
Cash flows from investing activities	17,402	**(2,102)**
Proceeds on disposal of property, plant and equipment and intangible assets	30	**6**
Proceeds on disposal of investment	20,599	**–**
Additions to property, plant and equipment and intangible assets	(3,044)	**(2,099)**
Acquisition of subsidiaries and joint venture	(183)	**(9)**
Cash flows from financing activities	(6,999)	**(1,275)**
Loans raised	2,710	**291**
Loans repaid	(8,503)	**(1,832)**
Acquisition of non-controlling interest	(2)	**–**
Finance lease capital repaid	(329)	**(83)**
(Increase)/decrease in net financial assets	(875)	**349**
Net increase/(decrease) in cash and cash equivalents	1,192	**(3,083)**
Net cash and cash equivalents at beginning of period	1,780	**3,793**
Effect of foreign exchange rate differences	–	**26**
Net cash and cash equivalents at end of period	2,972	**736**

Notes to the condensed consolidated interim financial statements

for the six months ended 30 September 2010

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 in South Africa and certain other African countries.

2. Basis of preparation and accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements are prepared on the historical cost basis, with the exception of certain financial instruments and share-based payments which are measured at grant date fair value. The results of the interim period are not necessarily indicative of the results for the entire year, and these reviewed financial statements should be read in conjunction with the audited financial statements for the year ended 31 March 2010.

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

Significant accounting policies

Except as described below, the accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial statements are consistent with those applied in the annual financial statements dated 31 March 2010.

IAS24 (revised) Related Party Disclosures

The Group has early adopted the revised IAS24 partial exemption from the disclosure requirements for government related entities for the financial reporting period starting 1 April 2010.

In terms of the above partial exemption of the revised standard, government related entities are required to disclose only those transactions that are either individually significant or collectively significant in transactions with government and major public entities.

The disclosures have been applied retrospectively.

IFRIC18 Transfers of Assets from Customers

As of 1 April 2010, the Group adopted IFRIC18 which clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

This interpretation does not have a material impact on contracts that Telkom has with external customers.

Change in Accounting Policy

IAS31 Interests in Joint Ventures

As of 1 April 2010, the Group changed its accounting policy for interests in joint ventures from proportionate consolidation to equity accounting.

The Group believes that equity accounting aligns it with the expected changes to the standard dealing with joint ventures likely to be issued as a new IFRS.

The Number Portability Company which was acquired in April 2010 will be accounted for in terms of the new policy.

This change in accounting policy has no retrospective impact on the Group financial statements.

The following new standards, amendments to standards and interpretations which are mandatory for financial periods beginning after 1 January 2010 do not have a material impact on the Group:
IFRS2 (amendment) Share-based Payments – Amendments relating to group cash-settled share-based payment transactions
IFRS2 (amendment) Share-based Payments – Scope of IFRS2 and revised IFRS3
IFRS5 (amendment) Non-current Assets held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary
IFRS5 (amendment) Non-current Assets held for Sale and Discontinued Operations – Disclosure on non-current assets (disposal groups) classified as held for sale or discontinued operations
IFRS8 (amendment) Operating Segments – Disclosure of information about segment assets
IAS1 (amendment) Presentation of Financial Statements – Current/non-current classification of convertible instruments
IAS7 (amendment) Statement of Cash Flows – Classification of expenditures on unrecognised assets
IAS17 (amendment) Leases – Classification of leases of land and buildings
IAS32 (amendment) Financial Instruments – Classification of rights issue
IAS36 (amendment) Impairment of Assets – Unit of accounting for goodwill impairment test
IAS38 (amendment) Intangible Assets – Additional consequential amendments arising from revised IFRS3
IAS38 (amendment) Intangible Assets – Measuring the fair value of an item of an intangible asset acquired in a business combination
IAS39 (amendment) Financial Instruments – Eligible hedged items
IAS39 (amendment) Financial Instruments – Scope exemption for business combination contracts
IAS39 (amendment) Financial Instruments – Cash flow hedge accounting
IAS39 (amendment) Financial Instruments – Assessment of loan prepayments penalties as embedded derivatives
IFRIC9 (amendment) Reassessment of Embedded Derivatives – Scope of IFRIC9 and revised IFRS3
IFRIC16 (amendment) Hedges of a Net Investment in a Foreign Operation – Amendment to the restriction on the entity that can hold hedging instruments

		Restated 30 September 2009 Rm	**30 September 2010 Rm**
3.	**Total revenue**	19,226	**17,973**
	Operating revenue	18,761	**17,667**
	Other income (excluding profit on disposal of property, plant and equipment, intangible assets and investments)	185	**173**
	Investment income	280	**133**
	Operating revenue decreased partially due to a reduction in interconnection revenue as a result of the mobile termination rate cut compared to the prior year and lower volumes on switched hubbing.		
	The decrease in investment income is as a result of lower cash balances.		

		30 September 2009 Rm	**30 September 2010 Rm**
4.	**Disposal groups**		
	Disposal of Vodacom Group (Proprietary) Limited		
	Telkom disposed of its 50% interest in Vodacom by selling 15% to Vodafone Group Plc ("Vodafone") and unbundling the remaining 35% to existing shareholders in Telkom on 18 May 2009.		
	Amounts included in the statement of comprehensive income:		
	Other income	18,535	–
	Gain on distribution of assets	25,688	–

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

for the six months ended 30 September 2010

		Restated 30 September 2009 Rm	**30 September 2010 Rm**
5.	**Operating expenses**		
5.1	**Employee expenses** Included in September 2009 is R951 million share-based compensation expense as a result of the change in the vesting conditions of the conditional share plan relating to the Vodacom transaction. If this once-off payment is excluded the 10% increase in employee expenses is partly attributable to a 7.5% salary increase that was agreed upon with the unions and workforce reduction expenditure of approximately R144 million.	5,359	**4,853**
5.2	**Payments to other operators** The decrease in payments to other operators is mainly due to the effect of the mobile termination rate cut compared to the prior year, and the lower volumes on switched hubbing.	4,284	**3,057**
5.3	**Selling, general and administrative expenses** Selling, general and administrative expenses decreased as a result of lower stock write-offs.	3,335	**2,911**
5.4	**Operating leases** Increase in operating leases is mainly as a result of increased utilisation of leased infrastructure in Multi-Links specifically relating to cell sites rental.	474	**526**
5.5	**Depreciation, amortisation, impairment and write-offs**	4,626	**2,659**
	Depreciation of property, plant and equipment	2,085	**2,028**
	Amortisation of intangible assets	359	**378**
	Impairment of property, plant and equipment and intangible assets	2,148	**201**
	Write-offs of property, plant and equipment and intangible assets	34	**52**
	The impairment charge of R201 million relates to Multi-Links (30 September 2009: R2,148 million).		
6.	**Finance charges and fair value movements**	794	**659**
	Finance charges on interest-bearing debt	749	**514**
	Local debt	835	**573**
	Foreign debt	66	**3**
	Less: Finance charges capitalised	(152)	**(62)**
	Foreign exchange gains and losses and fair value movement	45	**145**
	Foreign exchange (gains)/losses	(200)	**55**
	Fair value adjustments on derivative instruments	245	**90**
	The decrease in the finance charges is due to lower debt levels and lower interest rates over the period under review.		
	Higher fair value and exchange rate losses were incurred due to the mark to market valuation of forward exchange contracts and interest rate swap agreements as a result of the strengthening of the Rand, particularly against the US dollar.		

		Restated 30 September 2009 Rm	**30 September 2010 Rm**
7.	**Taxation**	3,700	**830**
	South African normal company taxation	2,068	**586**
	Deferred taxation	721	**86**
	Secondary taxation on companies ('STC')	911	**156**
	Foreign taxation	–	**2**
	Included in the current period's normal company taxation and deferred taxation expense is capital gains tax of RNil (30 September 2009: R1,345 million) and a reversal of RNil million (30 September 2009: R421 million) relating to the deferred taxation asset on the investments which were held for sale.		
	STC is provided for at a rate of 10% on the amount by which dividends declared by Telkom exceed dividends received.		
	Included in the STC for the comparative period is the impact of the Vodacom transaction dividend.		

		30 September 2009 Rm	**30 September 2010 Rm**
8.	**Taxation effects of other comprehensive income**		
	Tax effects relating to each component of other comprehensive income		
	Exchange differences on translating foreign operations	(1,587)	**(77)**
	Tax effect of exchange differences on translating foreign operations	326	**–**
	Net foreign currency translation differences for foreign operations	(1,261)	**(77)**
	Realised exchange differences on translating foreign operations	(189)	**–**
	Tax effect of realised exchange differences on translating foreign operations	–	**–**
	Net realised exchange differences on translating foreign operations	(189)	**–**
	Available-for-sale investment	8	**–**
	Tax effect of available-for-sale investment	–	**–**
	Net available-for-sale investment	8	**–**
	Defined benefit plan actuarial gains/(losses)	732	**(236)**
	Tax effect of defined benefit plan actuarial balance	(205)	**66**
	Net defined benefit plan actuarial gains/(losses)	527	**(170)**
	Defined benefit plan asset limitations	(722)	**123**
	Tax effect of defined benefit plan asset limitations	202	**(34)**
	Net defined benefit plan asset limitations	(520)	**89**
	Other comprehensive income for the period before taxation	(1,758)	**(190)**
	Tax effect of other comprehensive income for the period	323	**32**
	Other comprehensive income for the period net of taxation	(1,435)	**(158)**

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

for the six months ended 30 September 2010

		30 September 2009 Rm	**30 September 2010 Rm**
9.	**Earnings per share**		
	Total operations		
	Basic earnings per share (cents)	7,882.0	**198.6**
	Diluted earnings per share (cents)	7,865.8	**198.6**
	Headline earnings per share (cents)	(139.1)	**243.6**
	Diluted headline earnings per share (cents)	(138.8)	**243.6**
	Continuing operations		
	Basic earnings per share (cents)	7,860.9	**198.6**
	Diluted earnings per share (cents)	7,844.8	**198.6**
	Headline earnings per share (cents)	(160.2)	**243.6**
	Diluted headline earnings per share (cents)	(159.9)	**243.6**
	Reconciliation of weighted average number of ordinary shares:		
	Ordinary shares in issue	520,783,900	**520,783,900**
	Weighted average number of treasury shares	(17,596,506)	**(12,635,247)**
	Weighted average number of shares outstanding	503,187,394	**508,148,653**
	Reconciliation of diluted weighted average number of ordinary shares		
	Weighted average number of shares outstanding	503,187,394	**508,148,653**
	Expected future vesting of shares	1,031,110	–
	Diluted weighted average number of shares outstanding	504,218,504	**508,148,653**
	Total operations		
	Reconciliation between earnings and headline earnings:		
	Profit attributable to equity holders of Telkom	39,661	**1,009**
	Adjustments:		
	Profit on disposal of investments	(18,605)	**–**
	Profit on disposal of property, plant and equipment and intangible assets	(24)	**(11)**
	Impairment loss on property, plant and equipment and intangible assets	2,148	**201**
	Write-offs of property, plant and equipment and intangible assets	34	**52**
	Gain on distribution of assets	(25,688)	**–**
	Tax effects	1,774	**(13)**
	Headline earnings	(700)	**1,238**
	Continuing operations		
	Reconciliation between earnings and headline earnings:		
	Profit from continuing operations	39,631	**1,078**
	Non-controlling interest	(76)	**(69)**
	Earnings as reported	39,555	**1,009**
	Profit on disposal of investments	(18,605)	**–**
	Profit on disposal of property, plant and equipment and intangible assets	(24)	**(11)**
	Impairment loss on property, plant and equipment and intangible assets	2,148	**201**
	Write-offs of property, plant and equipment and intangible assets	34	**52**
	Gain on distribution of assets	(25,688)	**–**
	Tax effects	1,774	**(13)**
	Headline earnings	(806)	**1,238**

		30 September 2009 Rm	**30 September 2010 Rm**
9.	**Earnings per share** *(continued)*		
	Discontinuing operations		
	Reconciliation between earnings and headline earnings:		
	Profit from discontinued operations	106	**–**
	Non-controlling interest	–	**–**
	Earnings from discontinued operations attributable to equity holders of Telkom	106	**–**
	Headline earnings	106	**–**
	Dividend per share (cents)	375.0	**300.0**
	The calculation of dividend per share is based on dividends of R1,532 million (30 September 2009: R1,894 million) declared on 18 June 2010 (30 September 2009: 19 June 2009) and a number of ordinary shares on the date of dividend declaration of 510,638,013 (30 September 2009: 505,008,190). The reduction in the number of shares represents the number of treasury shares held on date of payment.		
	Vodacom dividend per share (cents)	7,750.0	**–**
	The Vodacom dividend consists of a once-off cash dividend of Nil cents (30 September 2009: 1,900.0 cents) per share totalling RNil (30 September 2009: R9,740 million) and a 35% unbundling share valued at Nil cents (30 September 2009: 5,850.0 cents) per share with a total value of RNil (30 September 2009: R29,990 million).		

		31 March 2010 Rm	**30 September 2010 Rm**
10.	**Net asset value per share**	5,919.9	**5,746.9**
	The calculation of net asset value per share is based on net assets of R29,346 million (31 March 2010: R29,925 million) and 510,638,013 (31 March 2010: 505,496,644) number of ordinary shares outstanding. The decrease in the net asset value is mainly due to the increase in net debt of R2.1 billion.		
11.	**Capital expenditure incurred**		
	Property, plant and equipment	4,964	**2,004**
	Intangible assets (including business combinations)	910	**162**
	Capital expenditure was largely for the deployment of technologies to support the growing data services business, links to the mobile cellular operators, expenditure for access line deployment and construction of mobile base stations.		
12.	**Net cash and cash equivalents**	3,793	**736**
	Cash shown as current assets	3,855	**825**
	Cash and bank balances	828	**642**
	Short-term deposits	3,027	**183**
	Credit facility utilised	(62)	**(89)**
	The significant decrease in cash and bank balances and short term deposits is due to the payment for the mobile expansion capital expenditure and operating expenses, the settlement of the Telcordia dispute (approximately R608 million) as well as the repayment of the private placings debt instrument (PPO3).		

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

for the six months ended 30 September 2010

		31 March 2010 Rm	**30 September 2010 Rm**
13.	**Treasury shares**	(1,171)	**(770)**
	The reserve represents amounts paid by Telkom to subsidiaries, Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited for the acquisition of Telkom's shares to be utilised in terms of the Telkom Conditional Share Plan ('TCSP').		
	At 30 September 2010, 2,002,331 (31 March 2010: 7,143,700) and 8,143,556 (31 March 2010: 8,143,556) ordinary shares in Telkom, with a fair value of R77 million (31 March 2010: R244 million) and R313 million (31 March 2010: R278 million) are held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, respectively.		
	The reduction in the number of treasury shares is due to 5,141,369 (31 March 2010: 4,457,699) shares that vested in terms of the TCSP during the six months ended 30 September 2010.		
14.	**Interest-bearing debt**		
	Non-current interest-bearing debt	7,925	**7,899**
	Local debt	6,863	**6,895**
	Foreign debt	156	**126**
	Finance leases	906	**878**
	Current portion of interest-bearing debt	1,812	**390**
	Local debt	1,711	**291**
	Foreign debt	55	**46**
	Finance leases	46	**53**
	Repayments/refinancing		
	The Group repaid private placings debt instruments with a nominal value of R1,780 million on maturity.		
	The R390 million nominal value of current portion of interest-bearing debt as at 30 September 2010 is expected to be repaid/refinanced from available cash, operational cash flow and the issue of new debt instruments.		
	Management believes that sufficient funding will be available at the date of repayment/refinancing.		

	31 March 2010 Rm	**30 September 2010 Rm**
15. Provisions		
Non-current portion of provisions	4,355	**4,866**
Employee related	4,304	**4,818**
Non-employee related	51	**48**
Current portion of provisions	2,556	**1,307**
Employee related	1,963	**1,287**
Non-employee related	593	**20**
The increase in non-current provisions is mainly due to the increase in post-retirement medical aid.		
The reduction of the current portion of provisions is attributable to the settlement of the Telcordia dispute (approximately R608 million) as well as only six months bonus provision being made to date.		
16. Trade and other payables	5,549	**4,334**
The decrease in the vendors' balances is due to less purchase requirements for projects made in the first half of the financial year and also due to the strengthening of the Rand against the major foreign currencies in the period under review.		
17. Commitments		
Capital commitments authorised	7,270	**5,214**
Commitments against authorised capital expenditure	1,680	**1,953**
Authorised capital expenditure not yet contracted	5,590	**3,261**
Capital commitments are largely attributable to purchases of property, plant and equipment and software (included in intangible assets).		
Included in commitments against authorised capital expenditure and authorised capital expenditure not yet contracted, is R1,489 million (31 March 2010: RNil million) and R233 million (31 March 2010: RNil million) respectively which relates to Telkom Mobile.		
Management expects these commitments to be financed from internally generated cash and other borrowings.		

18. Contingencies

The condensed set of financial statements includes only an update on the contingencies that were reflected in the most recent annual financial statements and should be read in conjunction with the disclosures in the Group's March 2010 financial statements.

SUPPLIER DISPUTE

Telcordia Settlement

The arbitrator's award was delivered on 11 June 2010. The arbitrator awarded an amount of USD30.5 million, excluding interest from March 2001, to Telcordia. Telkom paid an amount of USD8.7 million during 2007, which was in respect of conceded claims. The amount of the claim, plus interest thereon, as at 30 June 2010 was approximately USD82.7 million. The parties settled the matter on the basis that Telkom pay an amount of USD80 million, plus applicable VAT, which was paid.

18. Contingencies *(continued)*

SUPPLIER DISPUTE *(continued)*

Radio Surveillance Security Services (Pty) Limited ('RSSS')

RSSS invoiced Telkom R97 million in August 2010 for apparent upgrades and/or replacement of alarm systems dating back to 2008. No contract was concluded between Telkom and RSSS to perform these upgrades, nor were there any orders placed by Telkom with RSSS to proceed with the upgrades and/or replacements. Telkom has launched an investigation to confirm whether the services were actually rendered, however management has not been able to confirm this to date. Telkom's inhouse counsel is of the view that the invoice should not be paid.

COMPETITION COMMISSION

Telkom is party to a number of legal proceedings filed by several parties with the South African Competition Commission ('CC') alleging anti-competitive practices described below. Some of the complaints filed at the CC have been referred by the CC to the Competition Tribunal ('CT') for adjudication.

Should the CC find that Telkom committed a prohibited practice as set out in the Competition Act, the CT may impose a maximum administrative penalty of 10 percent of Telkom's annual turnover in the RSA during Telkom's preceding financial year. However, Telkom has been advised by external legal counsel that the CT has to date not imposed the maximum penalty on any offender in respect of the contraventions Telkom is being accused of.

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

The South African Vans Association ('SAVA') filed complaints against Telkom at the CC on 7 May 2002 regarding certain alleged anti-competitive practices by Telkom. The CC referred this matter to the CT, together with the Omnilink matter discussed below. Telkom has filed its opposing affidavit and the CC has filed a replying affidavit. The matter was set down for hearing by the CT from 30 May 2011 to 17 June 2011. On 27 September 2010, the CC filed an application to amend its papers to include a margin squeeze allegation. Telkom is opposing this application which has been set down for hearing at the CT in November 2010. Telkom is also preparing for the hearing of the main complaint.

Omnilink

On 22 August 2002, Omnilink filed a complaint against Telkom at the CC alleging that Telkom was abusing its dominance by discriminating in its price for Diginet services between those charged to VANS and the price charged to Telkom customers who apply for a Telkom VPN solution. The CC referred this complaint, together with the SAVA complaint, to the CT for adjudication. This matter is currently being dealt with together with the SAVA matter discussed above.

A pre-trial hearing was held and the matter was set down for hearing from 30 May 2011 to 17 June 2011.

Competition Commission Multiple Complaints Referral

The CC served an application on Telkom on 26 October 2009, in which it referred certain aspects of the complaints against Telkom by MWEB and Internet Solutions, the Internet Service Providers Association ('ISPA'), MWEB, Internet Solutions and Verizon respectively ("Multiple Complaints"), to the CT. The CC furthermore filed a notice of non-referral in respect of those aspects of the complaints not referred by it to the CT.

Telkom opposed the Multiple Complaints referral and filed an exception application, due to the CC's papers being vague and embarrassing and certain complaints being alleged cumulatively as opposed to in the alternative. Telkom also raised certain constitutional points relating to the definition of "excessive pricing" in the Competition Act and the implications of the said definition. The exception application was heard on 11 October 2010 and the parties are awaiting the CC's ruling. Telkom will only be expected to file an answer to the main complaint once the exception has been finalised.

Internet Solutions ('IS')

IS self-referred certain aspects of their complaint, namely those parts of their complaint which were non-referred by the CC, to the CT on 26 November 2009. The IS complaint referral and the Multiple Complaints referral are being dealt with together at the CT.

18. Contingencies *(continued)*

COMPETITION COMMISSION *(continued)*

Internet Solutions ('IS') *(continued)*

In this matter too, Telkom filed an exception to IS' referral papers. The exception application was heard on 11 October 2010, together with the exception application in the Multiple Complaints referral matter. At the hearing of the exception, the parties were instructed by the CT to attempt to reach agreement as to the manner in which IS would amend their papers to remove the cause for exception. No agreement was reached and both parties rather submitted proposals to the CT as to an appropriate ruling. The matter was finalised on the aforementioned basis and the parties are now awaiting the CC's ruling. Telkom will only be expected to file an answer to the IS self-referral once the exception has been finalised.

Directory Solutions CC v Trudon (Proprietary) Limited ('Trudon') and Telkom

Directory Solutions lodged a complaint at the CC on 25 March 2010 alleging that Trudon is abusing its dominance in the market in contravention of section 8 of the Competition Act 89 of 1998.

The complainant alleges:

- that Trudon refuses to publish the complainant's own entries;
- that Trudon refuses to advise the complainant timeously of the opening and closing canvas dates;
- that Trudon insists on receiving advance payment for entries submitted by the complainant on behalf of consumers whilst other entries submitted to Trudon directly by consumers are paid for on a monthly basis; and
- that Trudon's conduct is aimed at forcing the complainant out of the market.

In November 2009, Directory Solutions launched an application for interim relief at the CT, requesting an order that:

"The First Respondent be ordered to publish all entries submitted by the Applicant to First Respondent on behalf of Applicant's customers in the applicable telephone directories of the Second Respondent, with immediate effect, pending the outcome of the complaint lodged by the Applicant against the First and Second Respondent under reference 2009APR4384.

The First Respondent be prohibited from demanding payment upfront from the Applicant's customers as a prerequisite for publication of their entries on the basis that First Respondent contravenes Section 8 of the Competition Act 89 of 1998".

On 8 April 2010, the CT made an interim order in favour of Directory Solutions. Trudon and Telkom lodged an appeal at the Competition Appeal Court and the Competition Appeal Court ruled in favour of Telkom and Trudon on 17 June 2010, setting aside the interim order made by the CT. Directory Solutions then brought an application for special leave to appeal to the Supreme Court of Appeal, which is pending.

Chorus Call (Proprietary) Limited ('Chorus Call')

Chorus Call filed a complaint at the CC on 26 May 2009, alleging that "there is no difference in the prices Telkom charges its customers for national or long-distance peak calls, irrespective of the point of termination. For local peak calls, Telkom's minimum rate for calls on its network is R0.650 (including VAT) and R0.00653 (including VAT) per second. Rates for Telkom's peak local calls to a Neotel number are the same as the national rate. This pricing method results in Telkom calls to a Neotel number costing 66% more than a call terminating on Telkom's network." Telkom has not yet been provided with a full copy of the complaint.

The CC has forwarded various questionnaires to Telkom since March 2010 to which Telkom has responded.

ECN Telecommunications (Proprietary) Limited ('ECN')

ECN filed a complaint at the CC on 16 October 2009, alleging that "Telkom is marking up calls made by its subscribers to ECN's network to such an extent (by more than 100%) that ECN is being prevented from competing in the fixed line call termination market. As a direct result of Telkom's dominant position, nearly 100% of the calls that originate on fixed lines are made by Telkom subscribers. This means that Telkom has the ability to off-set retail tariffs at a level that will prevent ECN's fixed lines from becoming a competitive alternative to Telkom's fixed lines. ECN regards Telkom's excessive pricing of calls to ECN as (a) an abuse of its dominant position (b) a clear attempt to lessen competition in the market and (c) as being contrary to the public interest…"

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

for the six months ended 30 September 2010

18. Contingencies *(continued)*

COMPETITION COMMISSION *(continued)*

ECN Telecommunications (Proprietary) Limited ('ECN') *(continued)*

Telkom has not yet been provided with a full copy of the complaint. The CC has forwarded various questionnaires to Telkom since March 2010 to which Telkom has responded.

Phuthuma Networks (Proprietary) Limited ('Phuthuma')

Telkom was informed by the CC that a complaint was filed by Phuthuma at the CC, wherein Phuthuma alleges that "Telkom has contravened section 8(c) of the Competition Act no 89 of 1998, as amended, by abusing its dominant position in engaging in anti-competitive conduct in the telegraphic and telex maritime services market by unilaterally awarding these services to Networks Telex." On 28 June 2010, the CC decided to refer the complaint to the CT, but the complainant self-referred the matter to the CT on 20 July 2010, alleging that Telkom engaged in an exclusionary act "by appointing Network Telex in 2007 without any formal procurement process." Telkom filed its opposing affidavit and Phuthuma has filed a replying affidavit. A pre-hearing has been scheduled for 1 December 2010.

GENERAL LITIGATION MATTERS

Maredi Telecom and Broadcasting (Proprietary) Limited ('Maredi')

Maredi served an application on Telkom, Ericsson SA and Telsaf Data (Proprietary) Limited on 8 January 2009. The matter relates to a tender published by Telkom for the supply of point to point split mount microwave equipment. Maredi, Telsaf, Ericsson and a fourth company, Mobax, were shortlisted. The tender was awarded by Telkom to Telsaf and Ericsson.

Maredi applied for an urgent court order, with a court hearing date set for 3 February 2009, requesting that the court prevent Telkom from entering into a contract with Ericsson and Telsaf or either party, and from ordering goods or services from Ericsson and Telsaf pursuant to the tender. Maredi also requested an order (the review application) that the court review and set aside the award of the tender to Telsaf and Ericsson or either of the aforementioned parties, and refer the tender back to Telkom in order for Telkom to reconsider its award. Maredi alleged that there were certain irregularities in the tender process.

Telkom and Ericsson opposed the application. On 20 February 2009 the High Court dismissed Maredi's urgent application with costs. However, Maredi is proceeding with the review application in the ordinary course and Telkom is opposing the application.

The matter is not yet set down for hearing.

Phuthuma Networks (Proprietary) Limited ('Phuthuma')

Phuthuma served a summons on Telkom on 20 August 2009, wherein it is claiming various amounts as damages. Phuthuma has based its claim for damages on various allegations *inter alia* an allegation that Telkom had failed to adjudicate a tender in accordance with a fair, transparent, competitive and cost-effective procurement policy.

The tender was published on 30 November 2007 for the outsourcing of Telkom's Telex and Gentex Services and for the provision of a solution to support the maritime industry requirements. The validity period was 180 days during which period Telkom was required to make an award. Telkom had cancelled the tender on 10 June 2009 without making any award, due to the expiry of the validity period.

Phuthuma is claiming:
Damages of R3.7 billion alternatively R5.5 billion further alternatively R1.8 billion plus interest at 15.5 % per annum from April 2008, alternatively from 30 April 2009 being date of notice in terms of Act 40 of 2002, further alternatively from date of service of the summons plus costs of suit plus further and or alternate relief.

Telkom is defending the matter. The matter has been set down for hearing on 17 February 2011.

18. Contingencies *(continued)*

GENERAL LITIGATION MATTERS *continued*

South African National Road Agency Limited ('SANRAL')

On 1 October 2008, an application issued out of the Pietermaritzburg Division of the KwaZulu Natal High Court was served upon Telkom by SANRAL. In terms of the application, SANRAL is seeking a declaratory order and an interdict. The interdict has not been brought on an urgent basis and arises from a long standing dispute between Telkom and SANRAL regarding the latter's right to refuse Telkom access to its road reserves and to claim huge levies in lieu of Telkom's occupation thereof. Telkom had over many years attempted to negotiate an agreement with SANRAL.

With regard to the declaratory order, SANRAL has requested the court to declare that Telkom cannot enter upon SANRAL's land for any purpose whatsoever without SANRAL's permission and subject to prescriptions referred to in S48(3) (b) of the SANRAL Act. In addition as part of the declaratory order, SANRAL has also requested the court to declare that the installation of facilities installed by Telkom on that portion of the N2 national road reserve at section 32 between kilometres 8.2 and the town of Pongola was and is unlawful. Judgement was granted against Telkom on 25 October 2010 in respect of the declarator only. The order issued by the court requires Telkom to acquire the permission of SANRAL in terms of section 48 of the SANRAL Act and subject to the prescriptions of section 48 (3)(b) whenever it enters land under SANRAL's control. Telkom is appealing against the judgement.

Bihati Solutions (Proprietary) Limited ('Bihati')/RFP101

The matter arises from a tender which was published on 8 November 2007 for the provision of network services. Telkom failed to make an award during the validity period of 120 days or the purported extension granted by the shortlisted bidders. An award was subsequently made during November 2008 after the validity period had expired. Telkom had obtained an opinion from senior counsel after it received challenges from the unsuccessful bidders regarding the validity of the award made under the tender. As a consequence of counsel's opinion, the Telkom Board resolved to review and set aside the aforesaid award.

Prior to Telkom filing an application for the review and setting aside of its award made, Bihati served an application on Telkom for the review and setting aside the Telkom Board's decision to review and setting aside of its earlier decision to award a tender to Bihati and five other service providers. Telkom is opposing Bihati's application. Telkom has requested the court to order that the two applications be heard simultaneously. The applications were heard on 18 November 2010. Judgement was reserved.

COMPLAINTS AND COMPLIANCE COMMITTEE ICASA COMPLAINT

Phuthuma Networks (Proprietary) Limited ('Phuthuma')

During February 2010 Phuthuma lodged a complaint against Telkom at the Complaints and Compliance Committee of ICASA. The complaint is that Telkom has contravened the provisions of the repealed Telecommunications Act as well as the conditions of its licence. Telkom made submissions to the Committee. The matter is part heard and the hearing will resume again during the course of 2011.

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

for the six months ended 30 September 2010

	30 September 2009 Rm	**30 September 2010 Rm**
19. Segment information		
The Group's reporting segments are business units that are separately managed.		
The Group consists of two reportable segments namely Telkom South Africa and Multi-Links.		
The Telkom South Africa segment provides fixed-line access, fixed-mobile and data communications services through Telkom South Africa.		
The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria through the Multi-Links subsidiary.		
The other category is a reconciling item which is split geographically between international and South Africa.		
Telkom international category provides internet services outside South Africa, through the iWayAfrica subsidiary (formerly Africa Online Limited and MWEB Africa Limited) and management services through the Telkom Management Services Company.		
The South African category includes Trudon Group, Swiftnet, Data Centre Operations and the Group's corporate centre.		
The Data Centre Operations was shown as part of the Telkom South Africa segment in the March 2010 results as the financial information was still in the process of being split out. As the information is now available the results of the Data Centre Operations were moved to the other category as it does not meet the quantitative thresholds for disclosure as a separate segment. In addition a transfer pricing policy was implemented with effect from 1 April 2010 for internal transactions between the Data Centre Operations and other business units. Included in the Data Centre Operations under the other category is internal revenue of R577 million for the six months ended 30 September 2010 that is eliminated on consolidation.		
Consolidated operating revenue	18,761	**17,667**
Telkom South Africa	17,007	**15,968**
Multi-Links	818	**744**
Other		
International	234	**222**
South African	733	**1,356**
Elimination	(31)	**(623)**
Consolidated operating profit	2,648	**2,635**
Telkom South Africa	4,385	**3,609**
Multi-Links	(371)	**(262)**
Other		
International	(41)	**(65)**
South African	(1,173)	**(622)**
Elimination	(152)	**(25)**
Reconciliation		
Adjusted EBIT for reportable segments	2,648	**2,635**
Gain on sale of investment	18,603	**–**
Compensation expense	(946)	**–**
Impairment of goodwill and assets	(2,148)	**(201)**
Operating profit	18,157	**2,434**
Investment income	280	**133**
Gain on distribution of assets	25,688	**–**
Finance charges and fair value movement	(794)	**(659)**
Profit before taxation and discontinued operations	43,331	**1,908**

	31 March 2010 Rm	30 September 2009 Rm	**30 September 2010 Rm**
20. Related parties			
Details of material transactions and balances with related parties are as follows:			
With shareholders:			
Government of South Africa			
Related party transactions			
Revenue	2,861	1,360	**1,439**
Individually significant revenue	1,070	535	**523**
City of Cape Town	75	37	**37**
Correctional Services	73	39	**32**
Department of Health: Gauteng	36	18	**27**
Department of Justice	78	39	**43**
South African National Defence Force: (CSF)	72	37	**34**
South African Police Services	523	254	**251**
South African Revenue Services	68	39	**26**
S.I.T.A. (Pty) Limited	145	72	**73**
Collectively significant revenue	1,791	825	**916**
Related party balances			
Trade receivables	353	302	**360**
With entities under common control:			
Major public entities			
Related party balances			
Trade receivables	39	85	**162**
Trade payables	(8)	(6)	**(3)**
Related party transactions			
Revenue	(381)	(165)	**(189)**
Expenses	222	106	**99**
Individually significant expenses:			
South African Post Office	110	56	**50**
Collectively significant expenses	112	50	**49**
Rent received	(29)	(11)	**(16)**
Rent paid	22	11	**12**
Key management personnel compensation:			
Related party transactions			
Short-term employee benefits	137	67	**78**
Post-employment benefits	7	3	**4**
Equity compensation benefits	21	3	**3**

Terms and conditions of transactions with related parties

The sales to and purchases from related parties of telecommunication services are made at arm's length prices. Except as indicated above, outstanding balances at the end of September 2010 are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.

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

for the six months ended 30 September 2010

21. Significant matters

Resignation of Telkom Group Chief Executive Officer

Telkom announced on 4 June 2010 that Mr Reuben September will retire as Group Chief Executive Officer ("GCEO") and also relinquish his directorship at the expiry of his contract. However Mr Reuben September agreed with the Telkom Board to step down as GCEO and resigned as a director from 7 July 2010.

Appointment of Acting Group Chief Executive Officer

The Telkom Board has commenced the process of appointing a new GCEO. In the interim Mr Jeffrey Hedberg has been appointed as Acting GCEO.

The Telkom Board believes that these arrangements provide leadership, continuity and stability at an important time given a number of key strategic and operational deliverables.

A successor to Mr September will be announced in due course.

Resignation of Telkom Group Chief Financial Officer

Telkom announced on 13 July 2010 that Mr Peter Nelson retired as Group Chief Financial Officer ("GCFO") and also relinquished his directorship.

The Board thanked Mr Peter Nelson for his valuable contribution to Telkom and has wished him well.

Appointment of Acting Group Chief Financial Officer

Under the leadership of the Acting Group CEO, Mr Jeffrey Hedberg, the Group has initiated the process of appointing a new CFO. Mr Deon Fredericks, Group Executive: Accounting Services will act as CFO until the process has been finalised.

Change in directors

Mr B Molefe resigned as a non-executive director (Class B Shareholder representative) of the Board of Telkom with effect from 20 April 2010 as a result of the expiry of his employment contract with the Public Investment Corporation Limited.

Mr Younaid Waja was appointed as a non-executive director (Class B Shareholder representative) on the Board of Telkom with effect from 20 April 2010. In terms of the Company's articles of association, the Public Investment Corporation Limited, Telkom's Class B shareholder, has the prerogative of appointing the Class B shareholder representative.

Mr D Barber resigned as a non-executive director of the Board of Telkom with effect from 20 April 2010.

Dr Ekwow Spio-Garbrah resigned as a non-executive director (Class A Shareholder representative) of the Board of Telkom with effect from 1 May 2010.

Telkom concluded a roaming agreement with MTN South Africa

On 14 April 2010, Telkom announced that in line with its mobile strategy it concluded a five year national roaming agreement with MTN South Africa in terms of which Telkom and its customers will have national access to MTN's 2G and 3G network throughout South Africa. Telkom placed orders to build 2 000 new base stations in selected high density areas over the next two years.

The capital outlay for mobile related investments over the next five years is expected to be approximately R6 billion. The conclusion of the roaming agreement with MTN South Africa enhances Telkom's ability to offer Telkom customers extensive national mobile coverage from day one of launch and accordingly, is key to the delivery of a successful mobile strategy.

Voluntary severance packages

On 31 March 2010, the Board approved the offering of voluntary severance packages (VSPs) and voluntary early retirement packages (VERPs) to all management employees from 28 April 2010 until 2 July 2010. 186 employees accepted the packages, resulting in a cost of R144 million.

Integration of MWEB Africa Limited and Africa Online Limited

During the year management initiated the integration of MWEB Africa Limited and Africa Online Limited into a single entity, iWayAfrica. Management believes the integration will achieve financial synergies by improving economies of scale and eliminating duplication of functions. The integration process is ongoing.

22. Subsequent events

Telkom launches its mobile brand under a new name called: 8ta

On 18 October 2010 Telkom launched its new mobile brand called "8ta".

The launch of Telkom's mobile brand under the new name 8ta is undoubtedly the most significant achievement to date, one that will allow Telkom to not only counter the threat posed by competition such as fixed-to-mobile substitution (and the resulting decline in fixed-line voice revenue) but also grow Telkom revenue by providing mobile services and products to consumer and business markets.

Launching a retail brand is a massive undertaking that consists of a myriad of components – among other things the network and technology aspects, billing, products and services, distribution channels and the marketing drive to create awareness and generate sales.

Key brand attributes:
8ta is built on a number of core pillars. These give the brand a unique personality that tells the customer what 8ta stands for and why it is different to other brands in the mobile market:

- Value: "more bang for your buck", in other words more value for your money.
- Simplicity: products that are easy to understand, buy and use.
- Quality: network clarity and reliability, as well as the quality of the customer experience we offer.
- Innovation: deploying new mobile technologies and rapidly bringing new services to market.
- Authenticity: a South African brand for South Africa.

Government extends the chairman's contract

On 12 November 2010, the Government announced the renewal of the chairman's contract, Mr Jeff Molobela, for two months to give the Cabinet time to decide on his future. In addition to the above, Dr Victor Lawrence and Jackie Huntley's respective contracts which came to an end on 15 November 2010, were extended for an additional two months.

Public Finance Management Act ('PFMA')

Telkom's three year exemption from certain sections of the PFMA ended on 25 October 2010. The Minister of Communications has recommended a further three year exemption to the Minister of Finance for approval.

Multi-Links Telecommunications Limited

The Telkom Group Board has mandated management to review options of exiting the CDMA business. Telkom has received a number of expressions of interest which will be evaluated and quantified over the next quarter.

Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2010 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Notes

WWW.TELKOM.CO.ZA