

Telkom SA Limited

(Registration Number 1991/005476/06)

ISIN ZAE000044897

JSE Share Code TKG

("Telkom")

### **Trading statement and operational update**

In terms of paragraph 3.4(b) of the JSE Listings Requirements, companies are required to publish a trading statement as soon as they become reasonably certain that the financial results for the period to be reported on next will differ by at least 20% from those of the previous corresponding period.

Basic earnings per share from continuing operations for the six months ended 30 September 2011 are expected to be at least 70% lower than the comparative period in the prior year. The decrease is mainly attributable to the losses incurred by the mobile business and the impairment of iWayAfrica of approximately R450 million. iWayAfrica's performance was impacted by higher customer churn and the weakening of exchange rates. Excluding the impairment of iWayAfrica basic earnings are expected to be at least 40% lower than the comparative period in the prior year.

Headline earnings per share from continuing operations for the six months ended 30 September 2011 are expected to be at least 40% lower than the comparative period in the prior year. The decrease is mainly attributable to the losses incurred by the mobile business. Telkom will provide an updated trading statement once there is reasonable certainty within a 20% range of the results when compared to the previous comparable period.

Telkom's interim results for the six months ended 30 September 2010 will be restated to reflect the entire investment in the Multi-Links business as an asset held for sale. The operating loss of approximately R 200 million as at 31 August 2011, suffered by this operation will be disclosed as earnings from discontinued operations.

### ***Update on Multi-Links sale***

Multi-Links has been sold to Hip Oils TOPCO Ltd, an affiliate of Helios Towers Nigeria. The sale remains subject to the consent of the Security Exchange Commission (SEC) of Nigeria and the absence of an injunction, restraining order or decree of any Nigerian governmental entity prohibiting the transaction. The SEC requires the submission of certain original documentation which has been submitted and there is, currently, no indication of any order or injunction which may prohibit the transaction.

The sale of Multi-Links will result in the recognition of a net loss of approximately R650 million, if concluded, in the period under review, mainly due to the cumulative amount of exchange differences previously recognised in equity, now recognised in profit and loss on disposal of the Multi-Links foreign operation. As it is expected that

the transaction will be concluded after 30 September 2011 the impact has not been included in basic and headline earnings.

As part of the agreement of sale Telkom has guaranteed to accept liability for certain litigation claims against Multi-Links if these claims exceed \$10 million. It is considered not to be probable that the claims will exceed the \$10 million.

### ***Trading Conditions and operating performance for the five months ended 31 August 2011***

The operating environment remains challenging as a result of low economic growth and the uncertainty created by the global economic crises and volatile markets that have characterised 2011 to date. Competition, pricing pressures and regulatory interventions continue to have a negative impact on revenues. Revenues are expected to be under pressure for the foreseeable future.

### **Group Revenue**

Trading revenue has declined compared to the comparative period as a result of continuing substitution of fixed line traffic in favour of mobile and the impact of the fixed and mobile termination rate reductions.

Efforts to moderate the decline in revenues by introducing attractive calling plans, data and voice bundles and fixed and mobile convergence solutions are having some impact and these initiatives will be intensified over the medium term.

#### **Fixed line**

Local traffic revenues have declined by approximately 14%. This is largely as a result of a decline in volume. Long distance traffic revenue have declined by approximately 9% as a result of lower volumes, somewhat mitigated by an increase in calls during peak hours compared to off peak times. Fixed to mobile traffic revenue growth has increased by approximately 2%. This is mainly as a result of volume growth stimulated by the decline in mobile termination rates. International traffic revenue has decreased by approximately 21% due to competitor action and the oversupply of capacity related to additional undersea cables. The uptake in calling plans has been muted and revenue was approximately 2% higher compared to the comparative period.

Subscription revenue has increased as a result of higher effective pricing and an increase in customer premises device rentals.

Interconnection revenues have declined by approximately 13% mainly as a result of decreased volumes and a targeted reduction in low margin switched hubbing revenue.

Data revenues have declined by approximately 6% mainly as a result of the prior period benefiting by R334 million from the Soccer World Cup. While volumes have increased certain price reductions have been implemented to retain revenue. Self

provisioning of lease lines by mobile operators has impacted on leased line growth and revenue from internet access and related services have declined.

### **Telkom Mobile**

Telkom Mobile has incurred a loss of approximately R900 million for the 5 months ended 31 August 2011, but is progressing satisfactorily and is in line with our expectations. The overall subscriber base has grown 86.3% to 882 235 revenue generating customers from the start of the financial year. Post-paid customers grew by 490% while prepaid customers grew by 56%. The growth in prepaid customers was lower than expected because of sub-optimal distribution channels which have now been expanded. The blended ARPU as at 31 August was R61.97, an increase of 174% compared with 31 March 2011.

### **Group Operating Expenses**

Operating expenses, including mobile is at the same level as the comparative period. This excludes the impairment of the investment in iWayAfrica of approximately R450 million.

Employee related expenses include a 3% annual increase for management and 7% for other staff.

### ***Release of interim results***

Telkom plans to release its results for the six months ended 30 September 2011 on or about Monday, 22 November 2011.

This trading statement has neither been reviewed nor reported on by the company's external auditors.

Johannesburg

29 September 2011

Sponsor: UBS