



Telkom

Group Interim Results

for the six months
ended 30 September 2016



Tomorrow starts today

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

Special note regarding forward-looking statements

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

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

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

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

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

All commentary, messaging and indicators in this report exclude voluntary early retirement and severance package costs of R1 523 million and the related tax impact of R446 million in the prior corresponding period.

Key indicators





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in PDF format

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Auditors' review report

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

Board approval

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Telkom (Board) on 11 November 2016.

Preparation and supervisor of condensed consolidated interim financial statements

These condensed consolidated interim financial statements were prepared by Mrs Gladys Machinjike (Executive financial accounting and reporting) and supervised by Mr Robin Coode (Group executive accounting).

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Overview



Johannesburg, South Africa – 15 November 2016, Telkom SA SOC Limited (JSE: TKG) today announced Group interim results for the period ended 30 September 2016.

Message from Group CEO: Sipho Maseko

The group delivered a solid performance in a tough economy where businesses continue to operate under pressure. The consolidation of Business Connexion (BCX), as well as the satisfactory performance of our mobile business, drove revenue performance during the six months. The mobile business has contributed positively to the group's EBITDA in the reporting period. Our multi-year business transformation also contributed positively. I am pleased that we remain on track with our market guidance, despite the macro-economic challenges.

Customer experience remains a priority. We have undertaken a process redesign that will simplify and improve the quality of interactions with our customers. As part of our systems redesign programme, we have also progressed well with the fixed and mobile

convergence platform for our consumer and enterprise business. This convergence will allow our customers to have a single view of their account by the end of the financial year.

As from November, we have integrated our Enterprise business with BCX. Isaac Mophatlane has been appointed as the CEO of the merged entity, BCX. The combined entity will be our Enterprise go-to-market entity and is the only truly converged business in the market which offers end-to-end solutions to Enterprise customers. BCX remains a key growth platform for the group through which, among others, cloud computing and the Internet of Things (IoT) is delivered.

Group chief executive officer
Sipho Maseko



Key highlights – Tough climate but solid results

- Operating revenue up 20.6 percent to R20.2 billion
- Net operating revenue up 3.3 percent to R13.8 billion
- EBITDA increased 4.6 percent to R5.3 billion with an EBITDA margin of 26.1 percent
- Headline earnings per share (HEPS) increased 19.7 percent to 336.0 cents
- Capex increased 55.8 percent to R3.6 billion with capex to revenue of 18.0 percent
- Group's net cash and cash equivalents increased to R1.8 billion supporting the interim dividend of 131 cents per share

Financial capital

BCX boosting revenues

Operating revenue grew 20.6 percent to R20.2 billion with **net operating revenue** up 3.3 percent boosted by the consolidation of BCX in the period, along with robust performance by the mobile business.

BCX was consolidated for the six months, reporting revenue of R3.6 billion compared to one month revenue of R489 million in the prior corresponding period. Excluding BCX, operating revenue and net operating revenue grew 2.0 percent and 0.9 percent respectively attributable to the mobile business.

Broadband strategy yielding sound results

Mobile broadband revenue grew 43.2 percent to R1.0 billion supported by 2.3 million mobile broadband customers, an increase of 44.5 percent compared to the prior corresponding period. We now have 70.8 percent of our customer base using data at an average of 2.7 Gigabytes per customer per month. During the period, we re-farmed our 1 800 MHz spectrum to extend our LTE offering to smartphones. Our smartphone base has grown by 43.7 percent to 1.6 million. On the back of the upgrade of our network, in July we launched a groundbreaking broadband-led product, called FreeMe. Early indications show significant increase in gross connection monthly run rates and an uplift in ARPUs in the two month period. We are also observing good growth in our nomadic LTE offering, particularly in multi-dwelling areas. Here we have seen LTE customers more than doubling from the prior corresponding period, with an average usage of 25 Gigabytes per customer.

Fixed data connectivity revenue increased slightly at 0.5 percent to R3.3 billion after a year of decline. The turnaround in the fixed data connectivity is as a result of successful migration of customers from legacy leased lines to Megalines and Metro-Ethernet.

Group EBITDA positively impacted by multi-year business transformation

Group EBITDA grew 4.6 percent to R5.3 billion with a margin of 26.1 percent, slightly ahead of our margin guidance. This is mainly due to lower headcount which reduced by 14.3 percent to 12 184 and company employee expenses reducing by 14.6 percent.

We achieved efficiencies from our service fees and operating lease expenses as a result of cost saving initiatives implemented during the turnaround phase. These actions included effective property management and the change in our vehicle fleet. These savings were partly offset by an increase in selling, general and administration costs due to outsourcing and our focus on service improvement. The mobile business contributed positively to the group EBITDA. This is the first reporting period it has recorded positive EBITDA of R214 million.

HEPS and BEPS up on improved operating profits

Normalised HEPS grew 19.7 percent to 336.0 cents and normalised BEPS grew 8.6 percent to 348.7 cents benefiting from 8.2 percent growth in profit after tax.

Capex deployed to modernise our network

Capex increased 55.8 percent to R3.6 billion with capex to revenue of 18.0 percent at the top end of our guidance. The largest portion of our capex was deployed to revenue-generating areas which are our fibre deployment zones and serving the acceleration of mobile growth. Fibre to the premises remains our key priority as we increased the number of homes passed with fibre to 144 512 and ports activated via MSAN access to 1 278 430.

Through the re-farming of 1 800 MHz spectrum, we have successfully expanded our LTE services to smartphones. We invested in our LTE network expanding the number of integrated base stations by 10.9 percent to 1 532. This has enabled the ever increasing growth in data traffic. We continue to invest in the upgrade of both our mobile and fixed line networks, in line with global trends to improve our product offering and customer service.

Interim dividend

Group's net cash and cash equivalents of R1.8 billion subsequent to a dividend payment of R1.4 billion, capital investment of R3.5 billion and R522 million voluntary early retirement and severance packages provides the group with sufficient liquidity amid economic and market uncertainties.

Our strong cash generating ability has enabled us to introduce an interim dividend of 131 cents per share.

Strong balance sheet to fund growth

Our current net debt to EBITDA ratio remains low at 0.3 times, below our target of 1x providing us with sufficient capacity to invest and grow the business.



Productive capital

Consumer business driven by the performance of mobile business

The mobile business recorded strong service revenue of 36.7 percent driven by strong customer growth of 42.3 percent to 3.2 million active customer base. However the blended ARPU was relatively flat at R89. We will continue to utilise our focused Customer Value Management (CVM) activities to grow ARPUs from existing postpaid customers as well as cross selling additional products to current customers.

CVM customer retention activities on postpaid customers have led to postpaid churn stabilising, to marginally over 10 percent. The splendid performance in Mobile was as a result of additional stores and channels, competitive products and pricing such as Deal of the Month campaigns, along with the recent launch of FreeMe. The mobile business contributed positively to group EBITDA in the period compared to a negative EBITDA contribution in the prior corresponding period.

Our FreeMe product offers customers a data bundle with voice, WhatsApp calls, text for free and free Wi-Fi. According to an analysis by Tariffic, the FreeMe packages are the top choice for high data and voice users in South Africa.

FreeMe continues to be a very popular offering with customers and has performed even better than our initial expectations. We saw increased gross connections from both existing customers and new to franchise customers. The migration of customers from postpaid legacy plans to FreeMe will begin in November 2016. With 1.6 million smartphones on our base, we will be able to leverage FreeMe. In the period we sold approximately 170 000 prepaid FreeMe bundles, with over 70 percent of sales coming through our channels.

In the fixed business, we have seen a significant demand for fibre including existing ADSL customers migrating to fibre. However we encountered operational issues with fulfilment of orders including the impact of the industrial action. We are currently reviewing our processes in order to improve fulfilment.

The Small Business unit launched a voice and broadband failover service for small businesses, where the call is automatically redirected to mobile or a secondary number, if the fixed line is not available.



Leading in the fibre market

As part of our strategic intent to modernise our network, fibre continues to drive this transformation by covering multiple fibre connection points to homes, businesses, cabinets and base stations. Despite an intensely competitive market and operational challenges encountered as a result of the industrial action in August, we have been able to improve our ability to roll out and connect our customers to their choice of broadband access. While we drive the fibre rollout, we continue to see a market need for utilising our existing network, enabling access to Internet at the required speeds. To this end, we have seen an increase in ports activated via MSAN access by 24.1 percent to approximately 1.3 million homes passed.



Productive capital (continued)

Fibre to the home increased to 144 512 homes and 850 gated communities. The current connectivity rate is above 13 percent and growing steadily. We are confident that with our multiple deployment strategies and initiatives already underway, this number will continue to increase over the next twelve months. With our improved client services structure, we have increased the number of partnerships with resellers thus giving further impetus to connectivity rates.

We have approximately 42 176 fibre connections to business premises. This allows us to provide multiple services with high speed links to all major corporates in South Africa catering for their major site requirements as well as lower speed fibre-based Metro-Ethernet links, for the branch connectivity.

We are currently providing fibre links to approximately **5 600 base stations**. We believe that our pricing and engagement strategy is making headway in reducing self-provisioning. The strategy is also stimulating growth in our Megaline circuits and other products that service the requirements of our clients at the base stations.

As part of the transformation journey, a significant reduction in headcount was achieved while retaining the critical skills. The key skills retained will ensure we are able to realise our strategic imperatives of modernising our network, while also improving our service delivery.

We were negatively impacted by the industrial action that took place in August, which not only impacted our ability to maintain service levels, but also resulted in malicious damage to our infrastructure. We continue to work on ensuring our clients and customers are provided the high quality service they deserve and we have tirelessly worked to reduce the number of challenges we experience on our legacy network.

Telkom | Business Connexion

BCX: Integration realising synergies

In the first half of the year, the Enterprise division of Telkom and BCX worked together to implement the integration plan, under CEO Isaac Mophatlane's leadership. Synergies were realised through cross selling to each other's customer base, thanks to a go-to-market strategy which was well received by customers. In addition, the teams won business together as they leverage on their ability to offer end-to-end solutions to Enterprise customers.

However the challenging economic environment impacted these businesses which are exposed to public sector and corporates that remain under economic pressure. In addition, BCX is exposed to foreign currency volatility, particularly in Nigeria and Mozambique. We are currently building resilience in the merged business, to respond to these challenges.



Human capital

The Collaborative Partnership Agreement (CPA) signed with two of our three unions earlier this year included a ground-breaking commitment to a new employee incentive scheme for bargaining unit employees which focuses on the impact an individual can have on overall customer experience and profitability. This scheme, known as Performance Pays, has now gone live, and offers all employees the opportunity to earn up to 12 percent per month on top of their basic salary. The industrial action, driven by a single union that did not sign the CPA, lasted for six weeks. All striking employees returned to work and are benefiting from the implementation of the Performance Pays model.

During the course of 2016, Telkom has seen a stream of talented senior executives joining the business. What is most exciting is the diversity, experience and breadth of the talent seeking to join Telkom. In 2016 alone, we have seen 20 senior executives joining the team. The majority of those are female and over three quarters are black. Their backgrounds include banking, mining, telecommunications, technology and management consultancy.

Telkom has been focusing on innovative and disruptive recruitment into the business at all levels:

- Our first Bright Young Minds programme, launched in 2015, attracted eight of the best and brightest interns in the country;
- Our ongoing involvement with "WeThinkCode" is creating an exciting new pipeline of very young, talented coders to join our business;
- We have developed a strong talent management approach and have recently launched the senior executive "Step Up" development programme.
- Our Female Leadership Development programme is now in its third year.
- A new, digitally focused career and leadership development programme will be launched in 2017. We believe the programme will be the first of its kind in the country and will reach out to support all employees.





Intellectual capital The platforms for growth

After three years of working on the new Operations Support System and Business Support System (OSS/BSS) solution for Consumer and Enterprise, the integrated fixed and mobile platform has been completed and the migration of Consumer customers from the legacy systems onto the new platform has commenced. Consumer customer migration is expected to complete during the financial year.

Once migrated we will be able to sell fixed and mobile converged services to our Consumer customers through our new IT platform. This will allow customers to access a single view of their account for their fixed and mobile usage, in one statement. In turn, our business units are able to utilise customer value management in a more comprehensive and efficient way.

We are further redesigning processes that will simplify and improve the quality of interactions with our customers.

In the period, we have introduced process efficiencies in our stores, reducing time to capture customer information, credit vetting and approvals amongst others. We have also introduced a system called VDoc which eliminates paper and contract documentation in our Telkom Stores.

Our applications process is now automated and paperless with an application secured using an electronic signature on a screen.

We will now embark on implementing a separate OSS/BSS solution for Openserve to ensure equivalence of service through retail/wholesale separation. Once all fixed and mobile converged platforms are in place for all our business units, we will begin decommissioning our legacy systems.

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Natural capital

Telkom continues to invest in renewable and sustainable forms of natural resources management.

Of particular note in this period has been a 3MW solar farm going live at Telkom's Head Office, the largest privately owned installation of its kind in Africa. The solar farm is capable of producing the entirety of Telkom's Head Office power requirements for its staff during daylight hours. The solar farm assist in carbon displacement to improve our sustainability ratios.

Telkom has invested in new machine to machine technology which enables active energy consumption monitoring at our largest 50 sites, and facilitates the ability to manage our energy consumption at these sites in real time. It is planned to roll-out further sites later this year.

At several of our larger sites, water harvesting and recycling plans are well advanced and will enable Telkom to fundamentally reduce water consumption in future years.



Social and relationship capital

Growing skills, growing businesses

The Telkom Foundation's key focus is on education and in particular:

- The teaching and learning of maths, science, technology and English through the use of technology through the Connected Schools programme;
- Through partnerships with various academic institutions such as the North West and the Nelson Mandela Metropolitan Universities, the Foundation provides supplementary teaching to just under 4 000 learners in five provinces. Over time, we have seen steady learner performance improvements in the various supported schools.

During the 2016 winter holidays, the Foundation initiated a programme to expose young learners between the ages of 12 and 16 to a coding skills programme. This coding training was targeted at 20 learners from two Gauteng partner schools. A key outcome of this programme is seeing learners who have had no prior exposure to computers, designing and developing a school website on their own.



The Foundation is working with the

FutureMakers programme to increase its reach of young people exposed to coding as a core skill in the ICT space. Together with FutureMakers, the Foundation partnered with a non-profit organisation ("We ThinkCode"), which specialised in training young and unemployed South Africans in the art and science of coding. Our objective is, with them, to help build a pipeline of coders to be absorbed into the FutureMakers programme.

Participants have an opportunity to develop various applications which could be given commercial exposure. This partnership will not only provide the pipeline but will create a platform for young people to gain employability, or even access enterprise development opportunities.

The key focus of FutureMakers, our enterprise and supplier development programme, is to support small black-owned enterprises. We particularly focus on the supply chain, channel development and in the development of innovation solutions. We have approved financing for eleven black-owned small businesses, which have been approved via the FutureMakers

investment fund. Our business incubation spaces support more than a 1 000 entrepreneurs in the technology and innovation sector. We are also building strategic relationships with key industry players such as Microsoft and Cisco. Through these partnerships we aim to promote innovation, drive broadband uptake and improve technology usage in small business.

A total of 17 Internet cafés have been set up through the FutureMakers programme and are driving prepaid products in their communities across the country. The Internet cafés received capacity building support, business tools, access to technology, connectivity and selected infrastructure. To grow Telkom's ability to expand market penetration, 13 black-owned companies have been inducted into Telkom channel development as dealers, receiving financial and non-financial support. These companies sell Telkom products to consumers and small businesses. Telkom has already seen revenue generation through the dealers, which proves the programme's commercial relevance, while delivering transformation.

We also launched the Independent Field Technicians (IFTs) project, which assists former Telkom employees to run their own companies and form part of the Telkom supply chain. The IFT programme has expanded from three black-owned companies to 20 companies employing 139 technicians, focusing on ADSL faults and new installations. These companies are supported through provision of access to procurement contracts, business development support, tools, working capital and access to leased vehicles.



Outlook

Despite the increased competition in the market, we are in a good position to execute on our strategy. However the tough economic environment presents a challenge, as BCX, including the Enterprise business, is particularly impacted by these adverse conditions.

Nevertheless, we are committed to our sustainable growth framework for the group. We will continue to deploy capital to the growth areas of the business which will ultimately grow our revenue. Our capital investment has given priority to **Fibre to the premises** and **the mobile** business as we see these areas as growth platforms for our businesses.

We will continue to modernise our network with the intention to migrate customers from legacy to **fibre**. This programme is expected to increase the utilisation of our network and, over time, improve returns.

Our **mobile business** has been able to establish itself as a meaningful player in the market. We intend to grow our scale in the mobile market through focusing on the postpaid and data market where we are already making inroads.

The integration of **Enterprise business with BCX** is another growth platform through which cloud computing, data analytics and Internet of Things (IoT) among others, will be delivered. Telkom Group Information Technology (TGIT) functions will be migrated from corporate group and be integrated into BCX, Consumer and Openserve. Going forward, BCX will be responsible for maintaining and supporting our IT production and development systems and will manage all data centre operations.

We will continue to drive efficiencies and exercise cost and capital discipline throughout the business. We will also continue to focus on skills, expertise, simplification of processes and the ongoing upgrade of our IT systems and network to ensure sustainability of our business and improved customer service.

Dividend policy

The board has decided to amend the current dividend policy to a total dividend distribution of 60 percent of headline earnings for the year with an interim dividend of 40 percent of interim headline earnings.

Declaration of ordinary dividend

In accordance with the newly adopted dividend policy of paying 40% of headline earnings for the six months ended 30 September 2016, ordinary interim dividend number 19 of 131.23874 cents per share (March 2016: 270 cents) in respect of the period ended 30 September 2016 has been declared payable on Monday, 5 December 2016 to shareholders recorded in the register of the company at close of business on Friday, 2 December 2016.

The dividend will be subject to a local dividend withholding tax rate of 15 percent which will result in a net interim dividend of 111.55293 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of cash balances.

The number of ordinary shares in issue at date of this declaration is 526 948 698. Telkom SA SOC Limited's tax reference number is 9/414/001/710.

Salient dates with regard to the ordinary interim dividend 2016

Declaration date	Tuesday, 15 November 2016
Last date to trade cum dividend	Tuesday, 29 November 2016
Shares trade ex dividend	Wednesday, 30 November 2016
Record date	Friday, 2 December 2016
Payment date	Monday, 5 December 2016

Share certificates may not be dematerialised or re-materialised between Wednesday, 30 November 2016 and Friday, 2 December 2016, both days inclusive.

On Monday, 5 December 2016, dividends due to holders of certificated securities on the South African register will be transferred electronically to shareholders' bank accounts.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant CSDP or broker.

Results from continuing operations

The group recorded a reported profit after tax of R1 821 million (September 2015: R606 million). This is 200.5 percent higher than the prior corresponding period and was mainly as a result of voluntary early retirement and severance package costs of R1 523 million and the related tax impact of R446 million in the prior corresponding period.

The once-off items above are not part of the results from normal operations for the prior corresponding period under review and have therefore been excluded from the discussion below.

On a normalised basis the Group profit after tax increased 8.2 percent compared to the R1 683 million profit after tax recorded for the prior corresponding period. EBITDA increased 4.6 percent to R5 272 million (September 2015: R5 040 million), resulting in a 19.7 percent increase in headline earnings per share. The increase was driven by higher net operating revenue and flat operating expenses. This was partly offset by lower gains from sale of assets.

Financial guidance

	F2017	Actual H1 F2017		F2018
Net revenue	Modest growth	+3.3%	✓	Modest growth
EBITDA margin	23% - 25%	26.1%	✓	23% - 25%
Capex to revenue	15% - 18%	18%	✓	14% - 17%
Net debt to EBITDA	≤1	0.3	✓	≤1
Mobile EBITDA breakeven	Achieved	R 214 million	✓	n/a

The financial guidance above has not been reviewed or reported on by our auditors.

02

Operational
data

	September 2016	September 2015	%
Fixed broadband subscribers¹	1 018 405	1 015 307	0.3
Mobile broadband subscribers	2 275 513	1 575 038	44.5
Closer subscribers	821 246	839 158	(2.1)
Internet all access subscribers²	561 581	568 553	(1.2)
Fixed access lines ('000)³	3 090	3 323	(7.0)
Postpaid	2 174	2 273	(4.4)
Postpaid - ISDN channels	635	678	(6.3)
Prepaid	255	328	(22.3)
Payphones	26	44	(40.9)
Ports activated via MSAN access	1 278 430	1 030 441	24.1
Revenue per fixed access line (ZAR)	2 339	2 285	2.4
Total fixed-line traffic (millions of minutes)	6 797	7 666	(11.3)
Managed data network sites	46 978	47 502	(1.1)
Telkom Company employees⁵	12 184	14 212	(14.3)
Trudon employees	468	463	1.1
Swiftnet employees	135	112	20.5
BCX group employees	6 234	5 845	6.7
Active mobile subscribers⁶	3 212 499	2 257 404	42.3
Prepaid	2 236 996	1 576 471	41.9
Postpaid	975 503	680 933	43.3
Mobile sites integrated	2 777	2 549	8.9
LTE sites integrated	1 532	1 381	10.9
ARPU (Rand)	88.84	89.05	(0.2)
Prepaid	46.98	51.06	(8.0)
Postpaid	187.97	181.32	3.7
Churn % - prepaid	50.0	59.0	9.0

1. Includes 8 213 (September 2015: 8 341) internal lines, fibre subscribers and ADSL subscribers which includes business, consumer, corporate, government and wholesale customers.

2. Includes Telkom Internet ADSL, ISDN and WiMAX subscribers.

3. Excludes Telkom internal lines.

4. Penetration rate is based on the 2015 Stats SA mid-term population statistics.

5. Based on number of Telkom Company employees, excluding subsidiaries.

6. Based on a subscriber who has participated in a revenue-generating activity within the last 90 days.

03

Financial performance



Group operating revenue

In ZAR millions	September 2016	September 2015	%
Voice and subscriptions	7 485	7 686	(2.6)
Fixed-line usage	2 802	3 079	(9.0)
Fixed-line subscriptions	4 163	4 207	(1.1)
Mobile voice and subscriptions	520	400	30.0
Interconnection	531	598	(11.2)
Fixed-line domestic	198	226	(12.4)
Fixed-line international	277	317	(12.6)
Mobile interconnection	56	55	1.8
Data	6 115	5 723	6.8
Data connectivity	3 327	3 309	0.5
Internet access and related services	994	980	1.4
Managed data network services	566	538	5.2
Multi-media services	27	24	12.5
Mobile data	1 018	711	43.2
IT Business Services revenue	183	161	13.7
Customer premises equipment sales and rentals	1 707	1 480	15.3
Sales	139	150	(7.3)
Rentals	493	433	13.9
Mobile handset and equipment sales	1 075	897	19.8
Other	245	260	(5.8)
Other subsidiaries			
BCX	3 617	489	639.7
Trudon	478	498	(4.0)
Swiftnet	59	48	22.9
Total	20 237	16 782	20.6

Group operating revenue (continued)

Group operating revenue increased 20.6 percent to R20 237 million (September 2015: R16 782 million), driven by the acquisition of BCX and higher mobile revenue. This was partly offset by the decline in fixed-line voice revenue.

Fixed-line voice usage and subscription revenue decreased by 4.4 percent to R6 965 million (September 2015: R7 286 million) driven by competition, mobile substitution, a 7.0 percent decline in the number of lines and customers migrating to lower value bundled offerings.

Mobile voice and subscriber revenue increased 30.0 percent to R520 million (September 2015: R400 million). This can be attributed to a 42.3 percent increase in the number of active mobile subscribers and sustained blended ARPU of R88.84 (September 2015: R89.05).

Interconnection revenue decreased 11.2 percent to R531 million (September 2015: R598 million) due to competitive pricing.

Revenue from data connectivity services increased slightly to R3 327 million (September 2015: R3 309 million). The slight increase is due to the growth in Metro-Ethernet services as a result of the migration of customers from legacy leased lines and an increase in broadband revenue driven by a 0.3 percent increase in fixed broadband subscribers to 1 018 405 (September 2015: 1 015 307). Since March 2016 we have seen a migration from ADSL to LTE products. Mobile broadband subscribers increased 44.5 percent to 2 275 513 (September 2015: 1 575 038).

Growth of 1.4 percent in Internet access and related services revenue to R994 million (September 2015: R980 million) due to an increase in e-Business revenue.

Managed data network services revenue increased 5.2 percent to R566 million (September 2015: R538 million) due to higher VPN supreme and satellite revenue.

Mobile data revenue increased 43.2 percent to R1 018 million (September 2015: R711 million) driven by our strategy to focus on data which led to a 134.7% increase in mobile data traffic.

Group customer premises equipment sales increased 15.3 percent to R1 707 million (September 2015: R1 480 million) mainly due to increased mobile handset and equipment sales.



Group other income

In ZAR millions	September 2016	September 2015	%
Telkom	331	544	(39.2)
Business Connexion	57	5	1 040.0
Other			
Trudon	12	15	(20.0)
Swiftnet	1	1	-
Total	401	565	(29.0)

Other income includes profit on the disposal of investments, property, plant and equipment, interest received from debtors and sundry income.

Other income decreased 29.0 percent to R401 million (September 2015: R565 million) due to a decline in properties sold in the current period, partly offset by R57 million profit from BCX for a 60% sale of their share in Nanoteq effective 30 September 2016.

Group direct expenses

In ZAR millions	September 2016	September 2015	%
Payments to other operators	1 274	1 396	8.7
Direct cost	641	449	(42.8)
Cost of sales	4 473	1 533	(191.8)
Total	6 388	3 378	(89.1)

Group direct expenses per company

In ZAR millions	September 2016	September 2015	%
Telkom	2 920	2 776	(5.2)
Business Connexion	3 156	350	(801.7)
Other			
Trudon	292	238	(22.7)
Swiftnet	20	14	(42.9)
Total	6 388	3 378	(89.1)

Group direct expenses increased 89.1 percent to R6.4 billion mainly as a result of the consolidation of BCX.

Telkom direct expenses

In ZAR millions	September 2016	September 2015	%
Payments to other operators	1 254	1 383	9.3
Mobile network operators	688	764	10.0
International network operators	291	319	8.8
Fixed-line network operators	110	138	20.3
Data commitments	165	162	(1.9)
Direct cost	641	449	(42.8)
Cost of sales	1 025	944	(8.6)
Total	2 920	2 776	(5.2)

Payments to mobile network operators decreased 10.0 percent to R688 million (30 September 2015: R764 million) mainly driven by interconnect traffic lost due to competitive pricing.

Payments to international network operators decreased 8.8 percent to R291 million (30 September 2015: R319 million) as a result of interconnect traffic lost due to competitive pricing.

Payments to fixed-line network operators decreased 20.3 percent to R110 million (30 September 2015: R138 million) due to lower traffic volumes from VANS and other fixed-line operators.

Direct cost increased 42.8 percent as a result of an increase in the subscriber acquisition costs due to the significant growth in our mobile subscribers.

Group operating expenses

In ZAR millions	September 2016	September 2015	%
Employee expenses	4 191	4 309	2.7
Selling, general and administrative expenses	2 879	2 530	(13.8)
Service fees	1 404	1 470	4.5
Operating leases	504	619	18.6
Operating expenses excluding depreciation, amortisation, impairments and write-offs	8 978	8 928	(0.6)
Depreciation, amortisation, impairments and write-offs	2 680	2 615	(2.5)
Total	11 658	11 543	(1.0)

Including the consolidation of BCX for six months in the current period and one month in the prior corresponding period total group operating expenses increased by 1.0% to R11 658 million (September 2015: R11 543 million).

Telkom's operating expenses decreased 6.4 percent mainly as a result of employee cost optimisation and cost initiatives implemented in the prior corresponding period.

Telkom operating expenditure

In ZAR millions	September 2016	September 2015	%
Employee expenses	3 554	4 162	14.6
Salaries and wages	2 696	3 308	18.5
Benefits	1 099	1 059	(3.8)
Employee-related expenses capitalised	(241)	(205)	17.6
Selling, general and administrative expenses	2 663	2 497	(6.6)
Materials and maintenance	1 653	1 599	(3.4)
Marketing	381	323	(18.0)
Bad debts	161	144	(11.8)
Other	468	431	(8.6)
Service fees	1 281	1 441	11.1
Property management	729	849	14.1
Consultants, security and other	552	592	6.8
Operating leases	419	578	27.5
Buildings	243	264	8.0
Equipment	19	27	29.6
Vehicles	157	287	45.3
Depreciation, amortisation, impairments and write-offs	2 598	2 559	(1.5)
Depreciation	2 185	2 148	(1.7)
Amortisation	342	381	10.2
Impairment and write-offs	71	30	(136.7)
Total	10 515	11 237	6.4

Employee expenses were 14.6 percent lower due a lower headcount emanating from voluntary severance and retirement packages and the outsourcing of the call centres in the prior corresponding period. The headcount decreased 14.3 percent to 12 184 full-time employees. No increases were granted to bargaining unit and management employees. A performance pay structure was implemented for the bargaining unit with an incentive payment of 6% for the period ended 30 September 2016.

Selling, general and administrative expenses increased 6.6 percent to R2 663 million (September 2015: R2 497 million) mainly due to increased outsourcing cost and our focus on service improvement.

Service fees decreased 11.1 percent to R1 281 million (September 2015: R1 441 million) largely due to effective property management through successful contract negotiations. The 27.5 percent decrease in vehicle leases was mainly attributed to the transition of our vehicle supply contract in the prior corresponding period.

Depreciation increased 1.5 percent to R2 598 million (September 2015: R2 559 million) due to accelerated depreciation as we intensify our roll-out of fibre and LTE and higher asset write-offs. The group reassessed the useful lives on certain technologies. The reassessment of useful lives had the effect of increasing the depreciation expense for the period ended 30 September 2016 by R165 million (September 2015: R98 million).

BCX operating expenditure

Details of BCX operating expenditure are provided below.

In ZAR millions	September 2016	September 2015	%
Employee expenses	564	81	(596.3)
Selling, general and administrative expenses	170	1	-
Service fees	117	23	(408.7)
Operating leases	68	19	(257.9)
Total	919	124	(641.1)

Cost incurred by BCX relating to the revenue generated through Telkom amounts to R782 million. Please note that the third party costs incurred to generate internal revenue are not eliminated on consolidation.



Investment income

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 10.3 percent to R128 million (September 2015: R116 million) mainly as a result of the inclusion of BCX for six months in the current period and one month in the prior corresponding period.

Taxation

The normalised tax expense decreased slightly to R521 million (September 2015: R525 million) and excludes the R446 million tax benefit on the voluntary early retirement and severance package costs in the prior corresponding period.

Finance charges and fair value movements

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and the cell captive as well as foreign exchange gains and losses on foreign currency denominated transactions and balances.

Foreign exchange and fair value movements decreased 16.1 percent to a loss of R78 million (September 2015: R93 million loss). This decrease was mainly attributable to a fair value gain (prior year was a loss) on revaluation of the underlying assets held by the cell captive as a result of favourable market conditions, partly offset by the strengthening of the Rand against foreign currencies and a foreign currency devaluation impact of R25 million recorded by BCX. The interest expense increased 24.5 percent to R300 million (September 2015: R241 million) mainly attributable to new term debt raised.

Consolidated statement of financial position

Our Group's capital structure remains strong. Net debt at R3 428 million is down 14.5 percent from R4 011 million at 30 September 2015, representing a net debt to EBITDA ratio of 0.3 times. On 30 September 2016, the Group had cash balances, including other financial assets and liabilities of R1 530 million (30 September 2015: R623 million). We remain lowly geared with a comfortable debt maturity profile.

Free cash flow

In ZAR millions	September 2016	September 2015	%
Cash generated from operations before dividends paid as reported	3 266	2 029	61.0
Add back: Package cost paid	522	1 464	(64.3)
Adjusted cash generated from operations	3 788	3 493	8.4
Cash paid for capital expenditure	(3 547)	(2 048)	(73.2)
Free cash flow	241	1 445	(83.3)

Free cash flow decreased 83.3% due to an increase in capital expenditure as we focus on our fibre and LTE roll out.

Group capital expenditure

Our capital expenditure programme has been aligned to focus on the growth areas of our business which include Fibre to the home and LTE as well as cost and operational efficiencies emanating from network rehabilitation and our OSS/BSS programme.

Group capital expenditure, which includes spend on intangible assets, increased 55.8 percent to R3 639 million (September 2015: R2 335 million) and represents 18.0 percent of Group operating revenue (September 2015: 13.9 percent).

In ZAR millions	September 2016	September 2015	%
Fibre	929	343	170.8
Mobile	758	201	277.1
OSS/BSS programme	325	162	100.6
Network rehabilitation/sustainment	192	167	15.0
Service on demand	658	707	(6.9)
Core Network Growth	392	87	350.6
Other	158	415	(61.9)
Telkom	3 412	2 082	63.9
BCX	108	36	-
Other			
Trudon	51	42	21.4
Swiftnet	11	8	37.5
Capital expenditure included in PPE	3 582	2 168	65.2
Capital inventory	57	167	(65.9)
Total	3 639	2 335	55.8

Fibre expenditure of R929 million (September 2015: R343 million) has been aligned to the company strategy and there is an enhanced focus on FTTx deployment.

Mobile capital expenditure increased 277.1 percent to R758 million (September 2015: R201 million), due to the focus on continued LTE deployment, for the provision of fixed wireless access via LTE and Mobile LTE products and the continued roll-out of the 1 800 MHz re-farming project.

OSS/BSS programme expenditure increased 100.6 percent to R325 million (September 2015: R162 million) and is focused on operational and business support systems to ensure fulfilment assurance and billing requirements relating to our product portfolio. The NGN OSS/BSS programme will continue to focus on the improvement of

operational efficiencies and will support the launch of next generation products.

Network rehabilitation and sustainment category expenditure of R192 million (September 2015: R167 million) was largely linked to the replacement of obsolete power systems as well as the replacement and modernisation of the access and core network. The increase is due to a focus on access network rehabilitation to improve the customer experience for voice and data services.

Service on demand expenditure decreased 6.9 percent to R658 million (September 2015: R707 million). The focus area of this expenditure spans across revenue protection and revenue growth.

The core network growth expenditure increased to R392 million from R87 million in September 2015 and is related to the continued roll-out of the next generation network.

The 61.9 percent decrease in other capital expenditure of R158 million (September 2015: R415 million) is mainly attributable to the Centurion campus optimisation expenses incurred in the prior period and the focus of the key company initiatives.

Annexure A

Below are the results of BCX for the six months ended 30 September 2016 and one month ended 30 September 2015 that have been consolidated before inter-group eliminations:

	September 2016	September 2015
Operating revenue	4 419	491
Cost of sales*	3 246	350
Net operating revenue	1 173	141
Other income	57	5
Operating expenses	919	124
Depreciation, amortisation, impairment and write-offs	54	17
Operating profit	257	5
Profit for the period	147	6

**Cost of sales*

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and any loss of inventory or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, losses or reversal occurs. Manpower costs, depreciation charges and any other expenses incurred in delivering a service are also recognised as part of cost of sales.

BCX has seen a healthy growth in its solutions and service delivery and international business areas partly offset by a decline in smart office connection revenue. BCX also increased its capacity for innovative business solutions by purchasing the business of Relational Database Consulting Proprietary Limited enabling it to expand its existing offerings while, at the same time, improving its Oracle service offering.

Stable international revenue growth has been recorded in Nigeria, Mozambique and Namibia. Growth in the international business is driven by cloud-based service offerings combined with large scale public sector opportunities. The business has however been negatively impacted by the foreign currency devaluation in Nigeria and Mozambique.

Cost incurred by BCX relating to the revenue generated internally amounts to R782 million. Please note that these numbers are not eliminated on consolidation. Excluding these costs BCX generated external operating profit of R325 million.



04
Condensed
consolidated interim
financial statements

Condensed consolidated interim statement of profit or loss and other comprehensive income

for the six months ended 30 September 2016

		Reviewed	Reviewed
	Notes	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
Operating revenue	4	20 237	16 782
Payments to other operators	5.1	1 274	1 396
Cost of sales*	5.2	5 114	1 981
Net operating revenue		13 849	13 405
Other income	4	401	565
Operating expenses		8 978	10 453
Employee expenses	5.3	4 191	5 833
Selling, general and administrative expenses	5.4	2 879	2 530
Service fees*	5.5	1 404	1 471
Operating leases	5.6	504	619
Earnings before interest, tax, depreciation and amortisation (EBITDA)		5 272	3 517
Depreciation of property, plant and equipment	5.7	2 234	2 172
Amortisation of intangible assets	5.7	376	412
Write-offs, impairment and losses of property, plant and equipment and intangible assets		70	31
Operating profit		2 592	902
Investment income	4	128	116
Finance charges and fair value movements		378	334
Finance charges		300	241
Net loss on foreign exchange and fair value movements		78	93
Profit before taxation		2 342	684
Taxation expense	6	521	78
Profit for the period		1 821	606

*Refer to note 5.2 & 5.5

		Reviewed	Reviewed
	Notes	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange losses on translating foreign operations		(56)	-
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses		(207)	(262)
Defined benefit plan asset ceiling limitation		7	15
Income tax relating to components of other comprehensive loss		-	(35)
Other comprehensive loss for the period, net of taxation		(256)	(282)
Total comprehensive income for the period		1 565	324
Profit attributable to:			
Owners of Telkom		1 794	564
Non-controlling interests		27	42
Profit for the period		1 821	606
Total comprehensive income attributable to:			
Owners of Telkom		1 538	282
Non-controlling interests		27	42
Total comprehensive income for the period		1 565	324
Total operations			
Basic earnings per share (cents)	7	348.7	110.4
Diluted earnings per share (cents)	7	342.2	108.4

Condensed consolidated interim statement of financial position

at 30 September 2016

		Reviewed	Audited
	Notes	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Assets			
Non-current assets		34 572	33 875
Property, plant and equipment	8	26 084	25 357
Intangible assets	8	4 620	4 584
Other investments		2 410	2 318
Employee benefits	9	745	846
Other financial assets	12	50	55
Finance lease receivables		218	281
Deferred taxation	10	445	434
Current assets		11 165	12 912
Inventories	11	1 274	971
Income tax receivable		193	57
Current portion of finance lease receivables		208	207
Trade and other receivables		7 355	7 375
Current portion of other financial assets	12	120	1 754
Cash and cash equivalents	14	2 015	2 548
Total assets		45 737	46 787
Equity and liabilities			
Equity attributable to owners of the parent		26 157	26 134
Share capital	16	5 208	5 208
Share-based compensation reserve		328	241
Non-distributable reserves	17	1 346	1 507
Retained earnings		19 275	19 178
Non-controlling interests		458	473
Total equity		26 615	26 607

		Reviewed	Audited
	Notes	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Non-current liabilities		6 765	7 104
Interest-bearing debt	18	4 192	4 566
Employee related provisions	19	1 780	1 665
Non-employee related provisions	19	71	66
Deferred revenue		575	656
Deferred taxation	10	147	151
Current liabilities		12 357	13 076
Trade and other payables	20	6 982	7 134
Shareholders for dividend		24	22
Current portion of interest-bearing debt	18	766	703
Current portion of employee-related provisions	19	1 239	2 231
Current portion of non-employee-related provisions	19	116	142
Current portion of deferred revenue		1 587	1 708
Income tax payable		988	675
Current portion of other financial liabilities		461	455
Credit facilities utilised	14	194	6
Total liabilities		19 122	20 180
Total equity and liabilities		45 737	46 787

Condensed consolidated interim statement of changes in equity

for the six months ended 30 September 2016

	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
Balance at 1 April*	26 607	25 227
Attributable to owners of Telkom	26 134	24 864
Non-controlling interests	473	363
Total comprehensive income for the period	1 565	324
Profit for the period	1 821	606
Other comprehensive income	(256)	(282)
Exchange losses on translating foreign operations	(56)	-
Net defined benefit plan remeasurements	(200)	(282)
Dividend declared**	(1 451)	(1 336)
Acquisition of subsidiaries with non-controlling interest	1	126
Purchase of shares for the Telkom Share Plan	(205)	7
Increase in share-compensation reserve	98	80
Balance at end of period	26 615	24 428
Attributable to owners of Telkom	26 157	23 942
Non-controlling interests	458	486

*Due to the reassessment of the 31 March 2015 Telkom Retirement Fund employee obligation, at 31 March 2016, the comparative amount increased by R466 million.

**Dividend declared includes dividend to the non-controlling interests of the Trudon Group and the BCX Group.

Condensed consolidated interim statement of cash flows

for the six months ended 30 September 2016

	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
	Notes	
Cash flows from operating activities	1 819	700
Cash receipts from customers	20 042	17 010
Cash paid to suppliers and employees	(16 465)	(14 627)
Cash generated from operations	3 577	2 383
Interest received	253	245
Finance charges paid	(191)	(437)
Taxation paid	(373)	(162)
Cash generated from operations before dividend paid	3 266	2 029
Dividend paid	(1 447)	(1 329)
Cash flows from investing activities	(1 805)	(3 106)
Proceeds on disposal of property, plant and equipment and intangible assets	107	96
Additions to assets for capital expansion*	(3 547)	(2 048)
Decrease in repurchase agreements	1 634	1 101
Acquisition of subsidiary, net of cash acquired	1	(2 255)
Cash flows from financing activities	(732)	(538)
Loans raised	-	1 765
Loans repaid	(377)	(2 044)
Finance lease capital repaid	(18)	(414)
Purchase of shares for the Telkom Share Plan	(205)	-
Proceeds from net derivatives	99	189
Repayment from net derivatives	(231)	(34)
Net decrease in cash and cash equivalents	(718)	(2 944)
Net cash and cash equivalents at beginning of period	2 542	3 642
Effect of foreign exchange rate differences on cash and cash equivalents	(3)	2
Net cash and cash equivalents at end of period	1 821	700

*Includes R57 million (2015: R135 million) inventory purchases in the current financial period.

Notes to the condensed consolidated interim financial statements

for the six months ended 30 September 2016

1. Corporate information

Telkom SA SOC Limited (Telkom) is a Company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The main objective of Telkom Group is to supply telecommunication, multimedia, technology, information and other related information technology services to the Group customers, as well as mobile communication services, in Africa.

2. Basis of preparation and accounting policies

Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited, the South African Companies Act, 2008, as amended, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Reporting Standards Council.

The condensed consolidated interim financial statements are presented in South African Rand, which is the Group's presentation currency. All financial information presented in Rand has been rounded off to the nearest million.

The condensed consolidated interim financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and subsequently) measured at fair value. The results of the interim period are not necessarily indicative of the results for the entire year and these reviewed financial statements should be read in conjunction with the audited financial statements for the year ended 31 March 2016.

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

Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 March 2016.

Significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 March 2016.

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment information

The Telkom group previously presented two reportable segments, namely:

- i) Telkom which provides fixed-line access, fixed-line usage, data communications services, mobile voice services and handset sales; and
- ii) BCX which provides business solutions based on information and communications technology and runs ICT systems and manages products, services and solutions.

In the previous financial reporting period, the group reported its aspiration to implement a more flexible and agile operating and reporting model to manage performance and allocate resources. The executive committee, which has been deemed as the chief operating decision maker (CODM), in its journey to fully operationalise this aspiration, has started to assess the performance of the business units on a net operating revenue level and make decisions about the allocation of resources for fixed business, mobile business and BCX at an EBITDA level. The financial information reviewed by the CODM excludes inter segmental revenue and cost allocations as the transfer pricing principles continue to evolve.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

3. Segment information (continued) September 2016	Openserve	Consumer	Enterprise	BCX	Other	Eliminations	Consolidated
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue from external customers	2 470	7 234	6 383	3 617	533	-	20 237
Payment to other operators							(1 274)
Cost of sales							(5 114)
Segment net operating revenue	2 044	5 389	5 636	1 173	225	(618)	13 849
Fixed Business	2 044	4 558	5 529	-	(39)	123	12 215
Mobile Business	-	831	107	-	-	12	950
BCX services	-	-	-	1 173	-	(714)	459
Other	-	-	-	-	264	(39)	225
Reconciliation of operating profit, profit before tax							
		Fixed Business	Mobile Business	BCX	Other*	Eliminations	Consolidated
Segment net operating revenue		12 092	938	1 173	264	(618)	13 849
Other income		188	2	57	175	(21)	401
Operating expenses		(5 207)	(736)	(919)	(2 755)	639	(8 978)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		7 073	204	311	(2 316)	-	5 272
Depreciation, amortisation, impairment, write-offs and losses							(2 680)
Operating profit							2 592
Investment income							128
Finance charges and fair value movement							(378)
Profit before taxation							2 342
<i>*The EBITDA loss is mainly due to Corporate Centre operating expenditure</i>							
Other segment Information							
Capital expenditure on property, plant and equipment and intangible assets		2 654	758	108	62	-	3 582

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

3. Segment information (continued)	Openserve	Consumer	Enterprise	BCX	Other	Eliminations	Consolidated
September 2015	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue from external customers	2 600	5 817	7 330	489	546	-	16 782
Payment to other operators							(1 396)
Cost of sales							(1 981)
Segment net operating revenue	2 148	4 323	6 573	141	287	(67)	13 405
Fixed Business	2 148	3 704	6 496	-	(39)	(34)	12 275
Mobile Business	-	619	77	-	-	-	696
BCX services	-	-	-	141	-	(1)	140
Other	-	-	-	-	326	(32)	294
Reconciliation of operating profit, profit before tax		Fixed Business	Mobile Business	BCX	Other*	Eliminations	Consolidated
Segment net operating revenue		12 309	696	141	326	(67)	13 405
Other income		250	4	5	337	(31)	565
Operating expenses		(5 352)	(754)	(124)	(2 798)	98	(8 930)
Earnings before interest tax depreciation and amortisation (EBITDA) for reportable segments excluding voluntary packages		7 207	(54)	22	(2 135)	-	5 040
Voluntary packages							(1 523)
Depreciation, amortisation, impairment, write-offs and losses							(2 615)
Operating profit							902
Investment income							116
Finance charges and fair value movement							(334)
Profit before taxation							684
<i>*The EBITDA loss is mainly due to Corporate Centre operating expenditure</i>							
Other segment information							
Capital expenditure on property, plant and equipment and intangible assets		1 881	201	36	50	-	2 168

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

4. Total revenue	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
Total revenue		
Operating revenue	20 237	16 782
Other income* (excluding profit on disposal of property, plant and equipment, intangible assets and disposal of business)	257	283
Investment income	128	116

Operating revenue increased due to the higher mobile voice and subscriber revenue, higher equipment sales and the consolidation of BCX for the full reporting period, partially offset by the continuous decline in fixed-line voice revenue.

Other income remained fairly constant. Included in other income is interest received from debtors of R125 million (30 September 2015: R114 million).

*The profit on disposal of the excluded items is R144 million (30 September 2015: R282 million).

5. Operating expenses	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
5.1 Payments to other operators	1 274	1 396
The decrease is as a result of lower traffic carried for other operators.		
5.2 Cost of sales	5 114	1 981
The increase in the cost of sales is largely attributable to the inclusion of BCX for the full reporting period and the increase in the subscriber acquisition costs.		
Change in 30 September 2015 comparatives		
In order to achieve a more relevant presentation a decision was made to reclassify items from service fees to cost of sales amounting to R52 million. Refer to note 5.5.		
5.3 Employee expenses	4 191	5 833
The decrease in employee expenses is mainly due to the voluntary severance (VSP) and voluntary early retirement (VERP) that occurred only in the prior financial period and there were no salary increases in the current financial period. This was offset by a performance pay structure that was implemented for the bargaining unit with an average incentive payment of 6% in the current financial period.		
5.4 Selling, general and administrative expenses	2 879	2 530
The increase in selling, general and administrative expenses is mainly due to the inclusion of BCX for the full reporting period and outsourcing costs incurred by the Group.		
<i>Included in selling, general and administrative expenses is a write-down of inventories to the value of R21 million (30 September 2015: R51 million).</i>		
5.5 Service fees	1 404	1 471
The decrease is largely due to effective property management and offset by the inclusion of BCX for the full reporting period.		
Change in 30 September 2015 comparatives		
In order to achieve a more relevant presentation a decision was made to reclassify items from service fees to cost of sales amounting to R52 million. Refer to note 5.2.		

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

5. Operating expenses (continued)	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
5.6 Operating leases	504	619
The decrease is mainly attributed to the transition of the vehicle supply contract.		
5.7 Depreciation, amortisation, impairment, write-offs and losses	2 680	2 615
Depreciation of property, plant and equipment	2 234	2 172
Amortisation of intangible assets	376	412
Write-offs of property, plant and equipment and intangible assets	70	31
Depreciation increased slightly due to accelerated depreciation as Telkom intensified its roll-out of fibre and LTE and higher asset write offs. The group reassessed the useful lives on certain technologies. The reassessment of useful lives had the effect of increasing the depreciation expense for the period ended 30 September 2016 by R165 million (2015: R98 million). The total depreciation for future periods of these assets will be lower due to the reassessment.		
6. Taxation		
Taxation	521	78
South African normal company taxation	538	114
Deferred taxation (refer to note 10)	(20)	(38)
Foreign Tax	3	2

The increase in the normal tax is mainly due to the higher profit before tax in the current period and the occurrence of certain once off tax deductions arising from transformation expenditure incurred in the previous financial period.

7. Earnings per share	Reviewed	Reviewed
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm
Total operations		
Basic earnings per share (cents)	348.7	110.4
Diluted earnings per share (cents)	342.2	108.4
Headline earnings per share (cents)	336.0	69.9
Diluted headline earnings per share (cents)	329.8	68.6
Reconciliation of weighted average number of ordinary shares:		
Weighted ordinary shares in issue	526 948 700	526 948 700
Weighted average number of shares held by subsidiaries and in escrow	(12 398 650)	(15 933 358)
Weighted average number of shares outstanding	514 550 050	511 015 342
Reconciliation of diluted weighted average number of ordinary shares		
Weighted average number of shares outstanding	514 550 050	511 015 342
Expected future vesting of shares	9 725 687	9 145 787
Diluted weighted average number of shares outstanding	524 275 737	520 161 129
Total operations	Rm	Rm
Reconciliation between earnings and headline earnings:		
Profit for the year	1 821	606
Non-controlling interests	(27)	(42)
Profit attributable to equity holders of Telkom	1 794	564
Adjustments:		
Profit on disposal of property, plant and equipment and intangible assets	(87)	(282)
Profit on disposal of business	(57)	-
Write-offs of property, plant and equipment and intangible assets	70	31
Taxation effects	9	44
Headline earnings	1 729	357
Dividend per share (cents)	270.00	245.00

The calculation of dividend per share is based on dividends of R1 422 million (30 September 2015: R1 291 million) declared on 4 July 2016 and 526 948 700 (30 September 2015: 526 948 700) number of ordinary shares outstanding on the date of dividend declaration.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

8. Capital additions and disposals	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Property, plant and equipment		
Additions	3 157	5 263
Disposals	(21)	(231)
Intangible assets		
Additions	425	726
Disposals	-	-

The additions in this six-month period is largely due to the deployment of fibre and other technologies to support the growing data services business, internet capacity growth, links to the mobile cellular operators and access line deployment in selected high-growth commercial and business areas.

An estimated amount of R66 million (31 March 2016: R101 million) included in inventories will be used for Telkom's network expansion of which R57 million (31 March 2016: R83 million) was purchased in the current financial period.

Finance charges of R79 million (31 March 2016: R103 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

9. Employee benefits	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Telkom Pension net Fund asset (TPF)	745	846
Post retirement medical aid net plan asset (PRMA)	121	114
	624	732
<p>The assets recognised are determined in accordance with IAS 19. The TPF had fund assets of R294 million (31 March 2016: R321 million) and benefit obligation of R99 million (31 March 2016: R130 million). The asset restriction is R74 million (31 March 2016: R77 million). In the current period there was a restriction on the interest return of R4 million.</p> <p>The PRMA had plan assets of R2 906 million (31 March 2016: R3 002 million) and benefit obligation of R2 282 million (31 March 2016: R2 270 million).</p>		
10. Deferred taxation		
Deferred taxation balance is made up as follows:	298	283
Deferred taxation assets	445	434
Deferred taxation liabilities	(147)	(151)

Deferred tax assets and liabilities remained fairly constant.

The Group did not recognise deferred tax assets of R679 million (31 March 2016: R1 100 million) in respect of temporary differences amounting to R2 425 million (31 March 2016: R4 000 million) that can be carried forward against future taxable income.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

11. Inventories	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Inventories	1 274	971
Gross inventories	1 372	1 062
Write-down of inventories to net realisable value	(98)	(91)
The increase in inventory is mainly due to a higher work-in-progress value and CPE instruments at 30 September 2016.		
12. Other financial assets		
Non current other financial assets consist of:	50	55
- Asset finance receivables	24	20
- Shanike Investments	3	3
- NGA Loans	23	32
Current portion of other financial assets consist of:	120	1 754
- Repurchase agreements	-	1 634
- Derivative instruments	73	101
Forward exchange contracts	7	20
Firm commitments	66	43
Cross currency swaps	-	38
- Asset finance receivables	47	19

Repurchase agreements

The repurchase agreements were utilised for the current year dividend payout in July 2016 and the share buyback that occurred in April and May 2016.

13. Acquisition and disposal of subsidiaries	September 2016 Rm
13.1 Acquisition of subsidiaries	
September 2016	
Relational Database Consulting (Pty) Ltd (RDC)	
On 1 April 2016, Business Connexion Group Limited acquired the entire share capital of RDC.	
The total purchase consideration amounted to R30 million, funded by a cash payment of R16 million and a deferred purchase consideration of R14 million, payable on achieving financial targets.	
RDC is a market leader in Database and Operating System administration with a strong focus on Oracle.	
The acquisition will enable the group to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce the Group's core connectivity business and enhance convergence strategy. Their expanded range of services includes Oracle E-Business Suit, Oracle Fusion Middleware, Oracle Solaris Support and Oracle Sales.	
The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 April 2016 and the interim financial statements include the RDC results for the 6 months ended 30 September 2016.	
The fair value of the identifiable assets and liabilities at acquisition date were determined as follows:	
Assets	
Trade and other receivables	5
Cash and cash equivalents	17
Total assets	22
Liabilities	
Non current debt	(3)
Trade and other payables	(13)
Total liabilities	(16)
Total identifiable net assets at fair value	6

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

13. Acquisition and disposal of subsidiaries (continued)	September 2016 Rm
13.1 Acquisition of subsidiaries (continued)	
Goodwill arising at acquisition	24
Cash paid	16
Deferred purchase consideration	14
Purchase consideration transferred	30
Net cash inflow acquired with the subsidiary	1

At the date of the acquisition, the fair value of the trade receivables of R5 million approximated its carrying value.

From the date of acquisition, RDC has contributed R51 million of revenue and R9 million net profit before tax from the continuing operations of the Group.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of RDC with those of the Group. The goodwill is not deductible for income tax purposes.

Transaction costs of R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

As at 30 September 2016, the RDC and BCX initial business combination was complete.

March 2016 Business Connexion Group Limited (BCX)

On 25 August 2015, Telkom acquired the entire issued ordinary share capital and the entire issued "A" ordinary shares of Business Connexion Group (BCX). The total purchase consideration of R2.7 billion was funded through Telkom's own cash resources.

BCX provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

Anco IT (Pty) Ltd (Anco)

On 1 November 2015 BCX acquired the entire issued ordinary share capital of Anco. The total purchase consideration of R41 million was in the form of cash, earn-out payments, a loan to BCX and deferred consideration.

Anco provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

UCS Solutions (Pty) Ltd (UCS) minority interest

On 31 December 2015 the Telkom Group, through BCX acquired the remaining 15% of the UCS Solution Proprietary Limited (and its holding in Integr8 IT Proprietary Limited), based on the vested put option agreement with shareholders. UCS and Integr8 are now a wholly owned subsidiary of BCX group. This transaction was accounted for as an equity transaction.

Common Control transactions

On 1 November 2015 Cybernest (DCO), previously the IT business division of Telkom was sold to BCX to realise synergies. The transaction was financed through a loan from Telkom to BCX and accounted for as common control transaction. BCX recognised the acquired DCO assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the DCO business was recognised as common control equity reserves. In Telkom company the difference between the carrying amount of the DCO business and proceeds was recognised in profit or loss.

Goodwill reconciliation	September 2016	March 2016
	Rm	Rm
Opening balance	1 214	63
Acquisition of BCX*	-	1 119
Acquisition of Anco	-	32
Acquisition of RDC	24	-
	1 238	1 214

*R719 million is allocated to the Telkom CGU and R400 million is allocated to the BCX CGU.

13.2 Disposal of subsidiaries

The Group concluded a transaction to sell its Nanoteq business shareholding, effective 30 September 2016, for a total consideration of R57 million.

	30 September 2016 Rm
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	
Net assets disposed	1
Non-controlling interest	(1)
Consideration	57
Profit on disposal	57

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

14. Net cash and cash equivalents	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Cash disclosed as current assets	2 015	2 548
Cash and bank balances	690	418
Short-term deposits	1 325	2 130
Credit facilities utilised	(194)	(6)
Net cash and cash equivalents	1 821	2 542

The decrease in cash and cash equivalents is mainly due to the increase in capital expansion in the current period.

15. Financial risk management

Exposure to continuously changing market conditions has made management of financial risk critical for the Group. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors through its Audit Committee and its Risk Committee.

15.1 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is exposed to liquidity risk as a result of uncertain cash flows as well as capital commitments of the Group.

Liquidity risk is managed by the Group's Treasury team in accordance with policies and guidelines formulated by the Group's executive committee. In terms of its borrowing requirements the Group ensures that sufficient facilities exist to meet its immediate obligations.

Compared to the 2016 financial year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

15.2 Fair Value of financial instruments

The carrying amount of financial instruments approximate fair value, with the exception of interest-bearing debt (at amortised cost) which has a fair value of R5 276 million (31 March 2016: R5 569 million) and a carrying amount of R4 958 million (31 March 2016: R5 269 million) (refer to note 18).

15. Financial risk management (continued)

15.2 Fair Value of financial instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value

Type of financial instrument	Fair value at 30 September 2016 Rm	Valuation technique	Significant inputs
Investments and receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends excluding prepayments	3 956	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	(388)	Discounted cash flows	Yield curves, market interest rate and market foreign currency rate
Borrowings	(5 276)	Discounted cash flows	Market interest rate and market foreign currency rate

The estimated net fair values as at the reporting date, have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that the Group could realise in the normal course of business.

Derivatives are recognised at fair value. The fair values of derivatives are determined using quoted prices or, where such prices are not available, a discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivative position at the reporting date. The fair values of listed investments are based on quoted market prices.

The fair values of the borrowings disclosed above are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates. As a result they differ from carrying values. The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

15.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

15. Financial risk management (continued)			
15.3 Fair value hierarchy (continued)			
	Hierarchy levels	Six months ended September 2016 Rm	Year ended March 2016 Rm
The following table presents the fair value of the Group's assets and liabilities:			
Assets measured at fair value			
Investment in cell captive preference shares	Level 2	2 326	2 235
Investment by FutureMakers	Level 3	13	13
Forward exchange contracts	Level 2	7	20
Asset finance receivable	Level 2	71	39
Loans	Level 2	26	35
Firm commitments	Level 2	66	43
Cross currency swaps	Level 2	-	38
Liabilities measured at fair value			
Interest rate swaps	Level 2	(17)	(7)
Firm commitments	Level 2	(189)	(293)
Forward exchange contracts	Level 2	(255)	(155)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Quoted debt securities	Level 1	(2 248)	(2 162)
Unquoted debt securities	Level 2	(3 028)	(3 407)

16. Share capital	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Authorised and issued share capital is made up as follows:		
Authorised		
1 000 000 000 ordinary shares of R10 each	10 000	10 000
Issued and fully paid		
520 783 900 (31 March 2016: 520 783 900) ordinary shares of R10 each	5 208	5 208
6 164 800 (31 March 2016: 6 164 800) ordinary shares issued at no consideration	-	-
The following table illustrates the movement within the number of shares issued:	Number of shares	Number of shares
Shares in issue at beginning of year	526 948 700	520 783 900
Issue on 2 June 2015	-	2 185 452
Issue on 30 June 2015	-	3 979 348
Shares in issue at end of period	526 948 700	526 948 700

The unissued shares are under the control of the directors until the next Annual General Meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 10% of the current issued share capital.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

17. Non-distributable reserves	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Non-distributable reserves	1 346	1 507
Cell captive reserve	2 381	2 291
Foreign currency translation reserve	(65)	(9)
Shares held by subsidiaries and in escrow	(969)	(775)

The Group has a cell captive preference share investment to fund Telkom's post-retirement medical aid liability.

The fair value gains from the cell captive are recognised in profit or loss and then transferred to non-distributable reserves. In the current financial period R90 million (2016: R9 million) was transferred.

The reserve also represents Telkom shares held by subsidiaries and in escrow, to be utilised in terms of the Telkom Employee Share Plan.

In the current financial period, Telkom purchased R205 million worth of shares from the market for the purposes of the Telkom Employee Share Plan.

18. Interest-bearing debt	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Non-current interest-bearing debt	4 192	4 566
Local debt	3 978	4 340
Foreign debt	138	154
Finance leases	76	72
Current portion of interest-bearing debt	766	703
Local debt	692	654
Foreign debt	37	18
Finance leases	37	31
19. Provisions		
Non-current portion of provisions	1 851	1 731
Employee related	1 780	1 665
Non-employee related	71	66
Current portion of provisions	1 355	2 373
Employee related	1 239	2 231
Non-employee related	116	142

The current portion of interest-bearing debt of R766 million (nominal as at 30 September 2016) is expected to be repaid from available operational cash flow and/ or the issue of new debt instruments.

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

The increase in the non-current employee related provision is due to the increase in Telkom's obligation to the pre-September 2009 members of the Telkom Retirement Fund. The obligation increased mainly due to the periodic cost being larger than the contributions made by the Group.

The current portion of employee related provisions in the current period is less than the 31 March 2016 balance due to the provision for bonus being only for six months. The VSP/ VERP packages that were provided at 31 March 2016 have been paid out in the current financial period for employees that left the employment of Telkom before or on 30 September 2016.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

20. Trade and other payables	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Year ended 31 March 2016 Rm
Trade and other payables	6 982	7 134
Trade payables	2 998	3 872
Accruals and other payables	3 855	3 208
Finance cost accrued	129	54

The net decrease in trade payables, accruals and other payables is due to repayment of non-recurring trade payables.

Accruals and other payables mainly represent amounts payable for goods received, net of Value Added Tax obligations and licence fees.

Included in the current and prior year balance is the refund from SARS of R854 million. Refer to note 22.

21. Commitments

Capital commitments authorised	5 284	6 574
Commitments against authorised capital expenditure	4 295	3 388
Authorised capital expenditure not yet contracted	989	3 186

Capital expenditure is committed for property, plant and equipment and software (included in intangible assets).

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

22. Contingencies

CONTINGENT LIABILITIES

Matters before ICASA

End-user and service charter regulations

Based on ICASA's Complaints and Compliance Committee (CCC) ruling in the prior period, Telkom had initiated administrative review proceedings seeking to set-aside the applicability of the Regulations at issue. The review application is in process and no hearing date has been allocated as yet. In the interim, however, ICASA promulgated the Amended End-User and Subscriber Charter Regulations on 1 April 2016, in terms of which the fault clearance measurement for fixed services was amended to 90% fault clearance within 5 days, instead of 3 days. Telkom is assessing the impact of the amended Regulations on Telkom going forward.

HIGH COURT

Neotel/Telkom: CCC

At 31 March 2016, it was disclosed that the date for the hearing of the review application was to be set down. No date has been set down as yet for the hearing. Management believes that this matter no longer meets the definition of a contingent liability and will therefore no longer be disclosed as such.

Radio surveillance security services (Pty) Ltd (RSSS)

In December 2011, RSSS served a summons on Telkom for the sum of R216 million. Telkom is defending the matter and has filed a plea and counterclaim for R22 million. No contract was concluded with RSSS, no purchase orders were issued and no quotations were accepted by Telkom. The trial which commenced in May 2016, is re-enrolled for hearing in April 2017.

Phutuma networks (Pty) Ltd (Phutuma)

In August 2009 Phutuma served a summons on Telkom, claiming for damages arising from a tender published by Telkom in November 2007, claiming damages in the amount of R5,5 billion. The High Court granted absolution from the instance, in Telkom's favour. The Supreme Court of Appeal (SCA) had initially dismissed Phutuma's application for leave to appeal in October 2014. On 4 November 2014, the SCA rescinded its order granted in October 2014. In early 2015, the SCA referred the appeal back to the full bench of the North Gauteng High Court. The appeal was heard in September 2016 and judgement was reserved.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

22. Contingencies (continued)

OTHER

Section 197: labour relations act

As noted in the 2015 consolidated annual financial statements, Telkom invoked a process in terms of Section 197 of the Labour Relations Act, in a bid to outsource certain services as going concerns. Section 197 (7) states that Telkom and the new employers are jointly and severally liable to any employee who becomes entitled to receive a payment a result of the employee's dismissal for a reason relating to the new employer's operational requirements or liquidation or sequestration. Telkom will be held liable for a period of 12 months after the date of transfer, which may result in an onerous obligation.

CONTINGENT ASSETS

Tax matters

As noted in the 2016 consolidated annual financial statements, the tax treatment of the loss that arose in prior years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. On 4 August 2016 SARS issued a tax assessment relating to the 2012 period. After consultation with external specialist tax and legal advisors the Group disagrees with SARS' audit findings, however the tax refund received relating to the 2012 sale, remains contingent and will only be recognised once the matter has been resolved with SARS. The matter is continually being assessed to ensure that developments are appropriately reflected in the financial statements. Refer to note 20.

23. Related parties	Reviewed	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm	Year ended 31 March 2016 Rm
Details of material transactions and balances with related parties not disclosed separately in the condensed consolidated interim annual financial statements were as follows:			
With shareholders:			
Government of South Africa			
<i>Related party balances</i>			
Finance lease receivable	250	320	272
Trade receivables	561	459	562
Allowance for doubtful debt	(68)	(20)	(67)
<i>Related party transactions</i>			
Revenue	(1 974)	(1 797)	(3 700)
Individually significant revenue*	(677)	(622)	(1 278)
<i>Department of Correctional Services</i>	(42)	(38)	(78)
<i>Eastern Cape Department of Health</i>	(26)	(25)	(49)
<i>Province of KZN Health Service</i>	(40)	(27)	(64)
<i>Department of Justice</i>	(56)	(50)	(104)
<i>South African National Defence Force</i>	(35)	(33)	(66)
<i>South African Police Services</i>	(301)	(284)	(577)
<i>S.I.T.A. (Pty) Ltd</i>	(112)	(98)	(201)
<i>Ekurhuleni Metropolitan Council</i>	(22)	(26)	(57)
<i>Mpumalanga Department of Health**</i>	(15)	(15)	(29)
<i>Department of Interior Affairs</i>	(28)	(26)	(53)
Collectively significant revenue*	(1 297)	(1 175)	(2 422)

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

The individually significant revenue has changed in the current reporting period due to the make up of the entities disclosed.

**Individually significant for the current reporting period.

At 30 September 2016, the Government of South Africa held 39.3% (30 September 2015: 39.3%; 31 March 2016: 39.3%) of Telkom's shares, and has the ability to exercise significant influence by virtue of their voting rights at the Annual General Meeting, and the Public Investment Corporation held 11.6% (30 September 2015: 11.9%; 31 March 2016: 11.4%) of Telkom's shares.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

23. Related parties (continued)	Reviewed	Reviewed	Audited
	Six months ended 30 September 2016 Rm	Six months ended 30 September 2015 Rm	Year ended 31 March 2016 Rm
With entities under common control:			
Major public entities			
<i>Related party balances</i>			
Trade receivables	54	83	130
Trade payables	(7)	(1)	(5)
<i>Related party transactions</i>			
Revenue	(110)	(121)	(394)
Expenses	120	120	226
Individually significant expenses	112	115	207
<i>South African Post Office</i>	25	36	52
<i>Eskom</i>	87	79	155
Collectively significant expenses	8	5	19
Rent received	(16)	(35)	(28)
Individually significant rent received:	(12)	(31)	(25)
<i>South African Post Office</i>			
Collectively significant rent received	(4)	(4)	(3)
Rent paid	12	30	10
Individually significant rent paid:	9	26	5
<i>South African Post Office</i>			
Collectively significant rent paid	3	4	5
Key management personnel compensation: (Including directors and prescribed officers' emoluments)			
<i>Related party transactions</i>			
Short-term employee benefits	91	89	308
Post-employment benefits	6	7	17
Termination benefits	2	3	14
Equity compensation benefits	29	1	14
Terms and conditions of transactions with related parties			
Outstanding balances at the end of financial periods are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.			

24. Significant events and transactions

Results of the Telkom annual general meeting regarding directors re-appointments

On 24 August 2016, all board members were re-elected as per the annual general meeting ordinary resolutions.

Dividends

The Telkom board declared an ordinary dividend of 270 cents per share on 6 June 2016 payable on 4 July 2016 to shareholders registered on 1 July 2016.

Employee Share Plan

During April 2016, Telkom purchased 3 710 126 shares from the market through Rossal for the purposes of the employee share plan.

Telkom Enterprise and Business Connexion(BCX) Integration

On 6 June 2016, Telkom announced its intention to integrate Telkom Enterprise into BCX. BCX will operate as the Business to Business arm of the larger Telkom Group. As from November 2016, the Telkom Enterprise business has been integrated with BCX. This will enable the Telkom Group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market.

Allocation of shares in terms of the Telkom Employee Share Plan

On 6 June 2016, the board approved the fourth allocation of shares to employees in terms of its Employee Share Plan. The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable performance vesting period.

Vesting and sale of shares

In terms of the Telkom Share Plan 161 627 and 64 685 shares vested to Siphon Maseko and Deon Fredericks respectively. On 4 July 2016, Siphon Maseko disposed of 145 907 shares. On the 5 July 2016, Siphon Maseko and Deon Fredericks disposed of 15 720 and 25 581 shares respectively.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 September 2016

25. Events after the reporting date

Appointment of non-executive director

Telkom announced on 20 October 2016 that Dr Hamadoun Touré has been appointed to the board of directors as a non-executive director with effect from 19 October 2016.

Resignation of non-executive director

Telkom announced on 03 November 2016 that Ms Nunu Ntshingila had informed the board of her resignation as director effective from 3 November 2016.

Interim dividends

The Telkom board declared an interim dividend of 131.23874 cents per share on 11 November 2016 payable on 5 December 2016 to shareholders registered on 2 December 2016.

Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2016 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.



05
Today's
presentation

Telkom