

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

Group Annual Results  
For the year ended 31 March 2016

#### 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](http://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](http://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 for the current year exclude voluntary early retirement and severance package costs of R2 193 million and the related tax impact of R517 million. The comparative numbers exclude voluntary early retirement and severance package cost of R591 million and the related tax impact of R165 million, as well as the tax benefit on the post-retirement medical aid payment of R546 million.

#### Auditors' report

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by Ernst & Young Inc. who expressed an unmodified opinion thereon. The audited annual financial statements and the auditors' report thereon are available for inspection at the Company's registered office. The directors take full responsibility for the preparation of the preliminary, provisional or abridged report and the financial information has been correctly extracted from the underlying annual financial statements.

#### Board approval

The condensed consolidated provisional annual financial statements were authorised for issue by the Board of Directors of Telkom (Board) on 3 June 2016.

#### Preparer and supervisor of condensed consolidated provisional annual financial statements

These condensed consolidated provisional annual financial statements were prepared by Mrs Gladys Machinjike (Executive Financial Accounting and Reporting) and supervised by Mr Robin Coode (Group Executive Accounting).

Group salient features - for the year ended 31 March 2016.

#### Key highlights

- + Operating revenue up 13.9% to R37.3 billion
- + EBITDA up 16.1%\* with EBITDA margin of 29.3%\*
- + BEPS up 32.4%\* to 767.2 cents
- + HEPS up 15.5%\* to 657.9 cents
- + Capex up 16.8% with capex to revenue of 16.3%
- + Dividend declared up 10.2% to 270 cents per share

#### Achievements

- + Group net revenue up 3.7%
- + Group data revenue up 29.2%

- + Mobile service revenue up 39.3%
- + 93.7% reduction in Mobile EBITDA loss to R43 million
- + Telkom company employee expense down 9.6%\*
- + Profit after tax up 32.2%\*

#### Improvements

- + Active customer growth of 23.8% with improved blended ARPU of R89
- + 81 503 homes passed with fibre
- + LTE integrated sites up 9.9% to 1 448

#### Challenges

- + Voice and subscription revenue down 1.9%
- + Leased line revenue down 18.5% offset by higher capacity from Megalines and Metro-Ethernet
- + Increased competition

\*Excluding voluntary early retirement and severance package cost of R2 193 million and the related tax impact of R517 million. The comparative number also excludes voluntary early retirement and severance package cost of R591 million and the related tax impact of R165 million, as well as the tax benefit on the post-retirement medical aid payment of R546 million.

#### Key indicators

	2016	2015
	R million	R million
Operating revenue	37 325 (up 13.9%)	32 760
EBITDA	10 954 (up 16.1%)	9 432
	2016	2015
	Cents/share	Cents/share
BEPS	767.2 (up 32.4%)	579.5
HEPS	657.9 (up 15.5%)	569.7
	2016	2015
	Percentage	Percentage
Return on invested capital	16.0% (up 4.6 pts)	11.4%
	2016	2015
	R million	R million
Free cash flow	3 900	3 898
	2016	2015
	R million	R million
Telkom operating expenditure	21 880 (down 5.2%)	23 071
	2016	2015
	R million	R million
Mobile services and subscriptions revenue	2 528 (up 39.3%)	1 815
	2016	2015
	R million	R million
Mobile EBITDA loss	43 (down 93.7%)	684
	2016	2015
	Thousands	Thousands
Revenue generating mobile subscribers	2 707 (up 23.8%)	2 187

#### 01 OVERVIEW

Johannesburg, South Africa - 6 June 2016, Telkom SA SOC Limited (JSE: TKG) today announced group annual results for the year ended 31 March 2016.

#### MESSAGE FROM GROUP CEO: SIPHO MASEKO

Successful execution of our turnaround strategy; the business is now ready for growth.

This financial year marks the end of the turnaround phase of our business. I am very pleased with what we have achieved despite the challenges we encountered over the period. Our solid performance demonstrates the strong execution capability we have developed over our turnaround journey.

We have executed well on the targets we set for ourselves three years ago which included: de-risking the mobile business, managing traditional revenue decline, focusing on operational and capital efficiencies and improving customer experience.

The mobile business has been a star performer over this phase reducing its EBITDA loss from R2.2 billion three years ago to R43 million this year. Since the fourth quarter, the mobile business has been showing sequential break-even on a monthly basis.

During the turnaround phase, as part of our Customer First programme, we introduced the Net Promoter

Score (NPS) which measures customer experience.

We progressed well with the upgrading of our complex legacy IT systems which were a bottleneck in serving our customers, and outsourced our call centres to specialists with the aim of improving customer support services. We remain committed to putting our customers first and will continue to implement initiatives that will enhance their experience.

To prepare our business for the future and to meet the evolving needs of our customers, we have made a substantial investment in modernising our network infrastructure to the latest technologies. During the year under review, to strengthen our core business we successfully acquired Business Connexion (BCX). Our Enterprise and BCX teams are working closely together to offer an end-to-end service to our customers. The integration of BCX and Enterprise provides us with an ability to offer solutions beyond connectivity and strengthen our leadership in Enterprise.

We also announced our intention of implementing a more flexible and agile operating model and began the process with the launch of Openserve, our network and wholesale business, in October 2015. The objective of our new operating model, which will be supported by a lean corporate centre, is to improve accountability as well as the competitive effectiveness of each business unit relative to its peers. I am confident that we have laid a good foundation on which we can build and grow our business.

#### FINANCIAL CAPITAL

Strong revenue growth boosted by the acquisition of BCX and a solid performance in data

Operating revenue grew 13.9 percent to R37.3 billion with net revenue up 3.7 percent boosted by consolidation of BCX and solid performance in data. This performance was partially offset by a 1.9 percent decline in voice and subscriptions revenue as a result of the ongoing reduction in voice usage. The fixed to mobile substitution continues and we are managing the decline in voice through offering bundled products and migrating customers from traditional voice to data based products, which has seen a reduction in the accelerating negative growth experienced in recent years.

BCX generated revenue for seven months of R4.8 billion and EBIT of R213 million before eliminations since the acquisition date.

The integration of BCX which was acquired during the first half of the financial year is on track. Cybernest, previously the IT business division of Telkom, has been sold to BCX effective from 1 November 2015 to realise further synergies.

Group data revenue grew 29.2 percent mainly driven by IT services as a result of consolidating BCX. Data connectivity revenue from Metro-Ethernet and Megalines delivered good growth of 24 percent and 46 percent respectively, which was offset by a decline in leased line revenue of 18.5 percent. We have managed to stabilise the decline in leased line revenue in the second half of the year, indicating that our migration of customers to next generation products and services and pricing strategies are proving to be successful. Excluding leased line revenue, fixed-line data connectivity revenue grew 3.4 percent.

	2016 R million	2015 R million	2014 R million	2013 R million
Leased line, Megaline and Metro-Ethernet	2 028	2 050	2 362	2 523

	2016 Percentage	2015 Percentage	2014 Percentage	2013 Percentage
Percentage Deterioration	-1.1	-13.2	-6.4	-3.5

Demand for our mobile data services surged in the period with data revenue increasing by 59.4 percent due to a 72 percent growth in mobile data traffic. The fixed-line lookalike LTE service, which offers high download and upload speeds, has performed remarkably well constituting approximately 39 percent of our data traffic. This is encouraging given that we have significantly invested in LTE and it remains one of our capital investment priorities for future growth. In addition to the outstanding operational and financial performance, Telkom was the winner of the My Broadband mobile broadband provider of the year for the second consecutive year. Telkom was also named the mobile Internet provider South African consumers are most satisfied with, according to a survey conducted by the SA Consumer Satisfaction Index.

Group achieved flat operating expenses including BCX, a commendable performance in a 6 percent inflation environment.

During the year, 3 878 employees accepted voluntary severance packages (VSPs) and voluntary early retirement packages (VERPs) which amounted to R2.2 billion and a further 437 employees were affected by outsourcing. Excluding this impact, employee expenses decreased by 9.6 percent in Telkom Company (excluding BCX, Trudon and Swiftnet) due to lower headcount. This was partially offset by a 4.7 percent growth in selling, general and administration expenses (SG&A) as a result of cost relating to the outsourcing of our call centres.

	2016 R million	2015 R million	2014 R million
Telkom company employee expenses	7 914	8 752	9 031

	2016 People	2015 People	2014 People
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Headcount	13 766	18 333	19 197
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We further managed to reduce and variabilise what once was a rigid cost base as seen in our decline in property management and vehicle leases cost. With all the cost initiatives implemented through our multi-year cost efficiency programme, we have now reset the cost base and we will continue with sustained discipline over our overall costs going forward.

	2016	2015	2014
	R million	R million	R million
Property Management	1 518	1 934	1 741

	2016	2015	2014
	R million	R million	R million
Vehicle leases	425	484	514

EBITDA increased 16.1 percent with an EBITDA margin of 29.3 percent benefiting from net revenue generated and contained costs. However, on a reported basis, EBITDA growth was lower with an EBITDA margin of 23.5 percent as a result of the inclusion of BCX in the consolidated group results.

We are pleased to report BEPS increasing by 32.4 percent to 767 cents and HEPS growing by 15.5 percent to 658 cents. The main difference between BEPS and HEPS is the gains from property, plant and equipment of R704 million.

Capex aligned to our strategic priorities in preparation of future growth. Capex increased 16.8 percent to R6.1 billion with capex to revenue of 16.3 percent in line with our guidance. We invested in our key priority areas which include Fibre, LTE and Mobile, IT systems, maintenance and rehabilitation as well as service on demand.

In the year ahead we plan on an aggressive fibre roll-out as our number one priority while simultaneously deploying our other capital resources with a focus on revenue generation and cost efficiency as we seek to grow earnings.

Adequate balance sheet capacity to support inorganic growth and investment into the business. Our current net debt to EBITDA ratio remains low at 0.1x, significantly below our target of 1x, providing us with sufficient capacity to fund our capex programme, invest into the core business and take advantage of any earnings accretive inorganic growth opportunities.

Group cash balances and other money market instruments reduced from R4.7 billion to R4.2 billion affected by the following significant cash outflows during the year under review:

- + Purchase of BCX for R2.7 billion
- + Payment of voluntary early retirement and severance packages of R1.7 billion
- + Repayment of a maturing bond of R1.16 billion
- + Payment of the dividend of R1.4 billion.

The board declared a dividend of 270 cents, a 10.2 percent increase on the previous year's total dividend.

#### PRODUCTIVE CAPITAL

Our strategy, designed to support the introduction of a more flexible and agile operating model, includes strengthening our customer focus, improving business unit accountability and allowing for clearer decision-making and faster solution delivery. Openserve's revitalisation of the broadband ecosystem and its provision of affordable broadband for all South Africans is part of this strategy. To achieve this, we have decreased the cost of IPC and SAIX to stimulate growth and provide a true broadband experience to the end users. It also allows smaller operators to enter this space which was predominately dominated by the larger operators.

We also introduced a 1Mbps DSL service at a low price point to reduce the barriers to broadband access.

We intensified our fibre deployment plan by signing up more contractors to speed up our deployment to key identified areas. Our sales specialists are engaging with homeowner associations, body corporates as well as other service providers to assist us in gaining access so we can deploy fibre services to these areas. We conducted a fibre training programme for our reseller community to ensure they have a clear understanding of the product.

With the increasing demand for high speed broadband in mind, we aim to grow our broadband penetration through our fixed-line lookalike LTE services and will continue to invest in this service by re-farming our 1800 MHz spectrum to offer a fully mobile LTE service to our smartphone customers.

Our efforts to migrate customers off legacy services to bundled, converged and next generation services are showing early signs of success, which are reflected in the growth in subscriptions, Metro Ethernet and Megaline services. Indications are that this growth will offset the decline in our traditional revenue streams. While these services are priced lower, with smaller margins required to remain competitive, it presents an attractive opportunity for us to acquire new customers.

Our investment into BCX is also proving to be rewarding, with the demand by Telkom customers for BCX services growing as we combine our sales efforts to offer end-to-end solutions to our enterprise customers. We will also harness the success of our mobile business to offer fixed mobile convergence and unified communications to our Enterprise customers. Telkom Enterprise and BCX are moving closer together as we implement our integration plan. This integration allows us to offer purpose-built digital

solutions, together with integrated IT solutions, through joint vertical industry offerings to both Telkom and BCX customers.

#### HUMAN CAPITAL

During the period under review we have approved voluntary severance and retirement packages to 3 878 employees at a cost of R2.2 billion with a further 437 employees being affected by outsourcing.

We have been mindful to retain talent and attract new talent, especially scarce and business critical skills. While we have achieved a substantial reduction in our workforce we retained key skills with the main reductions being in the semi-skilled category, where we reduced our workforce by 46.6 percent year-on-year, and the junior management or supervisory category, where our workforce decreased by 25.3 percent. In the middle management category our workforce decreased by 14.8 percent year-on-year and there was a 4.1 percent decrease in senior management.

It is now necessary that we focus on becoming a company whose employees would like to recommend Telkom as a good place to work, as well as recommend our products and services to their friends and colleagues. Our culture shaping programme, which began with leadership, is well underway. We believe our efforts in this regard will have a positive impact on all our employees and increase productivity and internal brand commitment.

Telkom is taking a new view on recruitment in order to attract the best talent to the transforming business. It has recently hired eight interns through an online guerrilla marketing campaign that seeks to reward new ways of approaching business challenges. The campaign used social media posts, Google ads, and email marketing. The ad copy read: "We're looking for bright young minds. If you think you're the smartest person in the room, answer this question." The campaign generated over 38 000 hits in a two-month period. This is one way that Telkom sought a new perspective on hiring and to reward unconventional thinking, so the company took a chance with a new approach to talent acquisition

Our investment in training and development is key to our efforts to transform our culture and ensure that we achieve our strategic objective of equipping our employees with the appropriate skills and experience to put our customers first in a very competitive ICT environment. A major training effort currently underway is the multi-skilling of frontline store employees in the use of our new frontline systems, which provide an integrated view of our customer's mobile and fixed-line products.

#### INTELLECTUAL CAPITAL

Our continued commitment to the transformation of our technology platforms and systems that will empower our employees to provide much improved customer experience in replacing complex consumer and enterprise legacy systems. By the end of the third quarter of 2017 we will have completed the installation of our new operations support system (OSS) and business support system (BSS) stacks for our consumer and enterprise fixed-line and mobile products. This will provide us with an integrated view of our customers' fixed-line and mobile products, and will have a major impact on the speed and accuracy of the service we can provide our customers, as well as our customers' ability to view their information online.

We will continue on our journey to replace our legacy systems with best of suite packages that will take us from standalone bespoke systems to pre-wired, pre-integrated and pre-configured systems. The next focus will be addressing the Openserve systems. This process has the added complexity of having to manage the overhaul of technology systems that are integrated with South Africa's biggest and most complex network, as well as the management of stock and workforce scheduling.

We are also integrating BCX, which will become the IT arm of Telkom, not only providing IT services support and development to our customers, but also to Telkom. During FY2016 the first step we took in the integration of Telkom group IT (TGIT) and BCX was to integrate our Cybernest, Telkom's data centre operations, made up of six data centres, to BCX. These operations are now managed by BCX. We are busy with the design of how the various parts of TGIT and BCX will integrate so as to best serve our business units, and plan to complete this exercise over the next 12 months.

#### SOCIAL AND RELATIONSHIP CAPITAL

The primary focus of the Telkom Foundation, which is responsible for our corporate investment programme, is on education. It also invests in social development projects and runs a successful employee volunteering programme. We supported three education programmes, the Cancer Foundation's fundraising and a xenophobia campaign.

Over 200 Telkom employees volunteered in four projects which involved 1 600 youths and 114 schools through the Rally to Read programme. Over 500 Telkom volunteers also took part in the Connected Youth projects which focused on using ICT to support youth development. Some 1 600 youth were shown how to create electronic CVs, create email addresses and explore job and other youth development websites.

In response to the drought we supported Operation Hydrate efforts to provide water to communities in the Free State province and the establishment of boreholes in the same communities.

Our enterprise and supplier development programme FutureMakers, launched in May 2015, has already approved investments in eleven black-owned small businesses. The primary objective of the fund is to enable the growth of qualifying enterprises and to promote technology innovation in the Telkom value chain and the broader technology sector through financial support and appropriate business development support.

FutureMakers Hubs provided virtual and physical business incubation and development support to over

300 innovative technology businesses during FY2016 through its key partner, the Bandwidth Barn. FutureMakers Proof builds strategic relationships with key industry players to promote innovation, drive broadband uptake and improve technology usage in small business. These relationships have resulted in the training of over 300 black-owned businesses in the potential of technology to increase their business efficiencies, and improve their marketing and customer services.

FutureMakers Sourcing supports 49 Internet cafe owners with capacity building, business tools, technology, connectivity, selected infrastructure, as well as the establishment of new revenue streams. It has also partnered with ABI to support their Bizniz in a Box youth economic inclusion and empowerment programme, which through providing training, mentorship, business and technical support helps unemployed youth to own and run Internet cafe-cum-spaza shops in refurbished shipping containers.

FutureMakers, recognising that every individual and business that acquires new technology and tools will need technical support, has set up the independent field technicians (IFTs) pilot project, which will offer structured funding for IFTs that allows them to lease technician vehicles. There are already 12 people working for three new technical support businesses supported by the FutureMakers IFT project. The number of technicians benefitting employment is currently being increased to 65 working in 13 new companies that are being inducted to the IFT. We have equipped them to work on our network and are providing them with work and also encourage them to offer their services to other network operators. We believe they will grow into sustainable businesses providing a wide range of services to telecommunications, video entertainment and Internet companies throughout South Africa. The majority of the people working in these companies are ex-Telkom employees and these businesses offer them a more independent remuneration option.

#### NATURAL CAPITAL

Telkom is committed to minimising any possible negative impact it may have on the environment in which it operates, and to reducing our water and energy intensity. While Telkom is categorised as a medium to low risk organisation in terms of the impact of our activities on the environment we are committed to addressing the causes and adapting to the impacts of climate change.

We are constructing a large solar farm on our new campus in Centurion. The first phase of this project will produce 1MW of electricity and will go live in July 2016. Another megawatt will go live every month until the project is completed, at which time it will generate 3MW of electricity.

When completed, its panels will cover 1 800 carports specially positioned to absorb as much sunlight as possible.

The project will also make electrical points available for charging electrically operated vehicles. The next phase of our head office energy project will include a 3MW tri-generation plant which would allow us to be self-sufficient in terms of our electricity requirements for our head office.

Once completed these initiatives will reduce our carbon emissions by an estimated 15 377 tonnes a year, which is the equivalent of the annual GHG emissions of over 1 742 households.

#### OUTLOOK

Having completed the turnaround phase of our strategy, we are embarking on the next phase, the transformation to growth of our business. This entails moving from an efficiency to a growth bias as we focus on implementing our new operating model, while maintaining a cost efficiency focus.

Investing in high speed broadband, content and IP services, IT and value added services is a key part of our strategy to transform and exploit the potential of our business going forward. These, we believe, will serve towards strengthening our core business.

A relentless focus on customer service will also always be part of our strategy, as will implementing the right processes and systems to enable and empower our employees to contribute towards improved customer centricity. Our culture shaping programme will play an important part in creating an environment where our people can flourish and give of their best.

Group chief executive officer  
Sipho Maseko

#### DECLARATION OF DIVIDEND

Ordinary final dividend number 18 of 270 cents per share (March 2015: 215 cents and a special dividend of 30 cents) in respect of the year ended 31 March 2016 has been declared payable on Monday, 4 July 2016 to shareholders recorded in the register of the company at close of business on Friday, 1 July 2016. The dividend will be subject to a local dividend withholding tax rate of 15 percent which will result in a net final dividend of 229.5 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of cash balances.

#### DIVIDEND POLICY

The ordinary dividend has been calculated with reference to Telkom's current financial performance, current and future debt and cash flow levels. Telkom's turnaround and transformation over the last three years has been a success and as such the business has been stabilised and positioned for growth. Our intention is to grow our dividend on an annual basis taking into account financial performance, capital and operating expenditure requirements, the group's debt levels and available growth opportunities.

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 dividend 2016

Declaration date	Monday, 6 June 2016
Last date to trade cum dividend	Friday, 24 June 2016
Shares trade ex dividend	Monday, 27 June 2016
Record date	Friday, 1 July 2016
Payment date	Monday, 4 July 2016

Share certificates may not be dematerialised or rematerialised between Monday, 27 June 2016 and Friday, 1 July 2016, both days inclusive.

On Monday, 4 July 2016, dividends due to holders of certificated securities on the South African register will either be transferred electronically to shareholders' bank accounts or, in the absence of suitable mandates, dividend cheques will be posted to such shareholders.

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

With reference to special resolution number 8 passed by shareholders at the annual general meeting on 7 August 2014 we will only be paying dividends via electronic funds transfer (EFT) and therefore request all shareholders to provide Computershare with their banking details immediately. Computershare may be contacted on 011 370 5000.

#### REPORT STRUCTURE

Telkom acquired the entire issued share capital of Business Connexion (BCX) and accordingly included their results from 1 September 2015 in the group results. Cybernest, previously the IT business division of Telkom, has been sold to BCX effective 1 November 2015 to realise synergies. Through the acquisition of BCX and the sale of Cybernest to BCX we are expanding our IT services offering, integrated and end-to-end solutions and delivering capability.

The results of BCX for the seven months ended 31 March 2016 before inter-group eliminations are disclosed in annexure A.

Since the acquisition of BCX, the group consists of two reportable segments, namely Telkom and BCX.

The Telkom segment provides fixed-line access and data communication services through Telkom South Africa, and offers mobile voice services, data services and handset sales through Telkom Mobile.

The BCX segment provides information and communication services including cloud services, infrastructure services, workspace services, global service integration management and hardware and network equipment sales locally, in seven African countries, the UK and Dubai.

#### RESULTS FROM CONTINUING OPERATIONS

Shareholders are referred to the announcement of our annual results released on 8 June 2015 wherein we provided financial guidance for the year ending 31 March 2016 and informed shareholders that the board approved the disposal of Telkom's 64.9 percent shareholding in Trudon.

The material conditions precedent of the proposed sale of our stake in Trudon were not met and therefore Trudon will no longer be classified as a discontinued operation and has been consolidated into the results from continuing operations for the year.

The comparative information for March 2015 has been restated as a result of a prior year adjustment relating to the reassessment of the accounting treatment of the Telkom Retirement Fund (TRF). This reassessment relates to the classification of the TRF as either a defined contribution or a defined benefit plan. Although Telkom is not exposed to asset returns during the working lives of employees, the rules of the TRF provide that employees who were appointed prior to 1 September 2009 can retire from the defined contribution plan of the TRF with an option to receive a pension from the defined benefit plan of the TRF. Should a retiree elect to retire into the pensioner pool of the TRF and receive a pension from the defined benefit fund, the employer is thereafter exposed to longevity and the other actuarial risk from the date of retirement onwards.

The reassessment arose from the voluntary early retirement process concluded in August 2015 which highlighted the impact of the option available to employees. The pension is calculated based on the defined contribution member share at retirement. This change in classification and measurement impacted on the statement of financial position, and the statement of profit and loss and other comprehensive income as we recognised an IAS 19 non-current employee related provision which will incur interest costs, included in employee expenses. Further the SAICA exposure draft on the application of IAS 19 provided additional guidance on the actuarial assumptions that were required to be used in the measurement of this liability.

At 31 March 2016 the accounting obligation balance is R1 274 million. This provision is not expected to represent an outflow of cash.

The actuarially determined statutory valuation of the liability and funding position of the pensioner account in terms of the requirements of the Financial Services Board and the Pension Funds Act differs materially from the liability recognised in terms of IFRS. Actuaries have confirmed that the TRF is in a sound financial position as at the statutory valuation date in terms of section 16 of the Pension Funds Act, as amended. As at the latest statutory valuation date there was a surplus of R536 million in the

pensioners fund (after taking into account the solvency reserve of R2.3 billion).

The group recorded a reported profit after tax of R2.4 billion (March 2015: R3.2 billion). This is 25.4 percent lower than the previous period and was mainly as a result of voluntary early retirement and severance package costs of R2 193 million for 3 878 employees (a further 437 affected by outsourcing) in the current period and R591 million in the comparative period for 1 205 employees.

The one-off items discussed on page 5 are not part of the results from normal operations for the period under review and have therefore been excluded from the discussion below.

The group recorded a normalised profit after tax of R4 052 million (March 2015: R3 064 million) and EBITDA of R10 954 million (March 2015: R9 432 million), resulting in a 15.5 percent increase in headline earnings per share.

The increase was driven by higher mobile data revenue, gains on sale of assets and the benefit from lower employee expenses due to a lower headcount. This was offset by lower gains on foreign exchange and fair value movements as a result of the lower gains recognised on the underlying assets held by the cell captive and a higher income tax charge.

#### FINANCIAL GUIDANCE

	F2017	F2018
Net revenue	Modest growth	Modest growth
EBITDA margin	23%-25%*	23%-25%*
Capex to revenue	15%-18%	14%-17%
Net debt to EBITDA	smaller than or equal to 1	smaller than or equal to 1
Mobile EBITDA breakeven	Achieved	

\* Excluding BCX the EBITDA margin for FY2016 was 27.6 percent and we expect 25-27 percent and 26-28 percent for FY2017 and FY2018 respectively.

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

#### 02 OPERATIONAL DATA

Operational data	March 2016	March 2015	%
Broadband subscribers <sup>1</sup>	1 027 507	1 005 286	2.2
Closer subscribers	838 258	833 363	0.6
Internet all access subscribers <sup>2</sup>	574 460	574 761	(0.1)
Fixed access lines ('000) <sup>3</sup>	3 217	3 439	(6.5)
Post-paid	2 237	2 325	(3.8)
Post-paid - ISDN channels	665	697	(4.6)
Pre-paid	288	372	(22.6)
Payphones	27	45	(40.0)
Ports activated via MSAN access	1 077 939	964 196	11.8
Fixed-line penetration rate (%) <sup>4</sup>	5.8	6.6	(0.8)
Revenue per fixed access line (ZAR)	4 728	4 639	1.9
Total fixed-line traffic (millions of minutes)	14 918	16 315	(8.6)
Managed data network sites	47 492	47 599	(0.2)
Telkom Company employees <sup>5</sup>	13 766	18 333	(24.9)
Trudon employees	540	533	1.3
Swiftnet employees	131	108	21.3
BCX employees	5 904	-	-
Fixed access lines per employee <sup>5</sup>	234	188	24.5
Active mobile subscribers <sup>6</sup>	2 706 687	2 186 774	23.8
Pre-paid	1 912 415	1 607 649	19.0
Post-paid	794 272	579 125	37.2
Mobile sites integrated	2 663	2 510	6.1
LTE sites integrated	1 448	1 317	9.9
ARPU (Rand)	89.44	75.05	19.2
Pre-paid	51.46	39.68	29.7
Post-paid	181.69	196.89	(7.7)
Churn %-pre-paid	55.1	51.0	(4.1)

1. Includes 8 258 (March 2015: 8 341) internal lines, 8 129 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	March	March	%
In ZAR millions	2016	2015	
Voice and subscriptions	15 299	15 589	(1.9)



Fixed-line usage	6 029	6 867	(12.2)
Fixed-line subscriptions	8 421	8 005	5.2
Mobile voice and subscriptions	849	717	18.4
Interconnection	1 267	1 493	(15.1)
Fixed-line domestic	428	452	(5.3)
Fixed-line international	735	931	(21.1)
Mobile interconnection	104	110	(5.5)
Data	14 712	11 383	29.2
Data connectivity	6 763	6 836	(1.1)
Internet access and related services	1 971	1 832	7.6
Managed data network services	1 116	1 046	6.7
Multi-media services	52	48	8.3
Mobile data	1 575	988	59.4
IT Business Services revenue <sup>1</sup>	314	633	(50.4)
Business Connexion	2 921	-	-
Customer premises equipment sales and rentals	4 370	2 704	61.6
Sales	280	247	13.4
Rentals	902	865	4.3
Mobile handset and equipment sales	1 993	1 592	25.2
Business Connexion	1 195	-	-
Other	535	415	28.9
Other subsidiaries			
Trudon	1 040	1 085	(4.2)
Swiftnet	102	91	12.1
Total	37 325	32 760	13.9

#### 1. To be considered in conjunction with Business Connexion IT service revenue

Group operating revenue increased 13.9 percent to R37 325 million (March 2015: R32 760 million), driven by the acquisition of Business Connexion, higher mobile data revenue, fixed-line subscription revenue and higher equipment sales. This was offset by the continuous decline in fixed-line voice revenue and lower data connectivity which includes leased line revenue driven by our intention to migrate traditional revenue to bundled and next generation products and services.

Fixed-line voice usage revenue decreased by 12.2 percent to R6 029 million (March 2015: R6 867 million) driven by competition, our migration of voice customers to bundled and annuity products and a 6.5 percent decline in the number of lines.

Fixed-line subscriptions revenue grew 5.2 percent to R8 421 million (March 2015: R8 005 million) as a result of customers migrating to bundled offerings and average line rental tariff increases for business and residential customers.

Mobile voice and subscriber revenue increased 18.4 percent to R849 million (March 2015: R717 million). This can be attributed to a 23.8 percent increase in the number of active mobile subscribers and a 19.2 percent increase in blended ARPU.

Interconnection revenue decreased 15.1 percent to R1 267 million (March 2015: R1 493 million) due to competitive pricing.

Group data revenue including BCX increased 29.2 percent to R14.7 billion which constitutes 39.4 percent of the total revenue.

Revenue from data connectivity services decreased 1.1 percent to R6 763 million (March 2015: R6 836 million), caused by a decline in revenue from leased lines. The decrease is partly offset by growth in Metro-Ethernet and Megaline services as a result of migration and an increase in ADSL revenue driven by a 2.2 percent increase in Broadband subscribers to 1 027 507 (March 2015: 1 005 286).

Higher growth of 7.6 percent in Internet access and related services revenue to R1 971 million (March 2015: R1 832 million) was as a result of higher uptake on uncapped services.

Managed data network services revenue increased 6.7 percent to R1 116 million (March 2015: R1 046 million) due to higher VPN supreme and satellite revenue.

Mobile data revenue increased 59.4 percent to R1 575 million (March 2015: R988 million) driven by our strategy to focus on data which led to a 72 percent increase in mobile data traffic.

IT Business Services of the group increased 411.1 percent to R3 235 million (March 2015: R633 million) due to the inclusion of BCX.

Group customer premises equipment sales increased 61.6 percent to R4 370 million (March 2015: R2 704 million) mainly due to increased mobile handset and equipment sales and the inclusion of BCX.

Group other income	March	March	%
In ZAR millions	2016	2015	
Telkom	1 229	697	76.3
Business Connexion	16	-	-
Other			
Trudon	34	32	6.3
Swiftnet	2	2	-

Total	1 281	731	75.2
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Other income includes profit on the disposal of investments, property, plant and equipment, interest received from debtors and sundry income.

Other income increased 75.2 percent to R1 281 million (March 2015: R731 million) mainly as a result of higher profit on sale of properties.

Group direct expenses	March	March	%
In ZAR millions	2016	2015	
Payments to other operators	2 793	2 930	4.7
Direct cost	863	615	(40.3)
Cost of sales	6 106	2 634	(131.8)
Total	9 762	6 179	(58.0)

Group direct expenses increased 58 percent to R9.8 billion as a result of the consolidation of Business Connexion from 1 September 2015.

Group direct expenses per segment	March	March	%
In ZAR millions	2016	2015	
Telkom	5 767	5 689	(1.4)
Business Connexion	3 508	-	-
Other			
Trudon	460	462	0.4
Swiftnet	27	28	3.6
Total	9 762	6 179	(58.0)

Telkom direct expenses	March	March	%
In ZAR millions	2016	2015	
Payments to other operators	2 766	2 902	4.7
Mobile network operators	1 444	1 450	0.4
International network operators	756	887	14.8
Fixed-line network operators	248	254	2.4
Data commitments	318	311	(2.3)
Direct cost	863	615	(40.3)
Cost of sales	2 138	2 172	1.6
Total	5 767	5 689	(1.4)

Payments to international operators decreased 14.8 percent as a result of interconnect traffic lost due to competitive pricing. We regained lost traffic in the latter part of the year under review.

Higher direct cost is driven by an increase in subscriber acquisition costs

Group operating expenses	March	March	%
In ZAR millions	2016	2015	
Employee expenses	8 708	8 871	1.8
Selling, general and administrative expenses	4 978	4 755	(4.7)
Service fees	3 106	3 219	3.5
Operating leases	1 098	1 035	(6.1)
Operating expenses excluding depreciation, amortisation, impairments and write-offs	17 890	17 880	(0.1)
Depreciation, amortisation, impairments and write-offs	5 442	5 505	1.1
Total	23 332	23 385	0.2

Group operating expenses including depreciation, amortisation, impairments and write-offs were flat at R23.3 billion (March 2015: R23.4 billion) for the year ended 31 March 2016. Telkom's operating expenses decreased 5.2 percent due to lower employee expenses and effective property management cost.

Telkom operating expenditure	March	March	%
In ZAR millions	2016	2015	
Employee expenses	7 914	8 752	9.6
Salaries and wages	6 130	7 167	14.5
Benefits	2 244	2 071	(8.4)
Employee related expenses capitalised	(460)	(486)	5.4
Selling, general and administrative expenses	4 819	4 664	(3.3)
Materials and maintenance	2 969	2 908	(2.1)
Marketing	756	714	(5.9)
Bad debts	319	319	-
Other	775	723	(7.2)
Service fees	2 893	3 209	9.9
Property management	1 518	1 934	21.5
Consultants, security and other	1 375	1 275	(7.8)
Operating leases	980	987	0.7
Buildings	508	455	(11.7)
Equipment	47	48	2.1
Vehicles	425	484	12.2
Depreciation, amortisation, impairments and write-offs	5 274	5 459	3.4
Depreciation	4 303	4 481	4.0
Amortisation	801	757	(5.8)

Impairment and write-offs	170	221	23.1
Total	21 880	23 071	5.2

Employee expenses were 9.6 percent lower due a lower headcount emanating from voluntary severance and retirement packages and the outsourcing of the call centres in the previous period. The headcount decreased 24.9 percent to 13 766 full-time employees. This was offset by a 6.6 percent average salary increase for bargaining unit employees and a 6.1 percent average salary increase for management employees.

Selling, general and administrative expenses increased 3.3 percent to R4 819 million (March 2015: R4 664 million) mainly due to cost relating to the outsourcing of our call centres.

Service fees decreased 9.9 percent to R2 893 million (March 2015: R3 209 million) largely due to effective property management partly offset by an increase in costs incurred relating to the company's transformation programme.

The 12.2 percent decrease in vehicle leases was mainly attributed to the transition of our vehicle supply contract despite initial disruption during the execution of this initiative.

Building leases increased 11.7 percent to R508 million (March 2015: R455 million) as a result of an increase in the site lease cost on mobile masts.

Depreciation decreased 3.4 percent to R5 274 million (March 2015: R5 459 million) due to lower asset write-offs and acceleration.

Mobile operating expenditure	March	March	%
In ZAR millions	2016	2015	
Payments to other operators	707	505	(40.0)
Direct cost	649	512	(26.8)
Cost of sales	1 772	1 436	(23.4)
Employee expenses	266	368	27.7
Selling, general and administrative expenses	780	920	15.2
Service fees	83	100	17.0
Operating leases	311	260	(19.6)
Depreciation, amortisation, impairments and write-offs	786	720	(9.2)
Total	5 354	4 821	(11.1)

Business Connexion operating expenditure	March	March	%
In ZAR millions	2016	2015	
Direct cost	3 508	-	-
Employee expenses	664	-	-
Selling, general and administrative expenses	82	-	-
Service fees	203	-	-
Operating leases	77	-	-
Depreciation, amortisation, impairments and write-offs	100	-	-
Total	4 634	-	-

#### Investment income

Investment income consists of interest received on short-term investments and bank accounts. Investment income decreased by 30.7 percent to R203 million (March 2015: R293 million) as a result of lower cash balances held by the group.

#### 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 213.5 percent to a loss of R101 million (March 2015: R89 million gain). This decrease was mainly attributable to a fair value loss (prior year was a gain) on revaluation of the underlying assets held by the cell captive. The interest expense decreased 7.3 percent to R521 million (March 2015: R562 million) as a result of lower debt levels.

#### Taxation

The reported tax expense increased by 1 971.4 percent to R524 million (March 2015: R28 million credit). The lower 2015 expense was mainly as a result of the settlement of the post-retirement medical aid liability related to the post-1994 pensioners and the reversal of provisions relating to the 2010 tax year.

The normalised tax expense increased by 52.4 percent to R1 041 million (March 2015: R683 million) and excludes the R517 million (March 2015: R711 million) tax benefit on the voluntary severance and retrenchment expenses and other one-off items.

#### Consolidated statement of financial position

The group's capital structure remains strong. Net debt, including financial assets and liabilities, increased to R1 373 million from R123 million as at 31 March 2015, resulting in a net debt to EBITDA ratio of 0.1 times. On 31 March 2016, the group had cash balances and other money market investments of R4.2 billion (31 March 2015: R4.7 billion). The lower cash balances emanate from significant cash outflows including the cash payment for BCX, dividend payment and voluntary early retirement and severance package costs. Despite the significant cash outflows we remain lowly geared with a comfortable

debt maturity profile.

Free cash flow In ZAR millions	March 2016	March 2015	%
Cash generated from operations before dividends paid as reported	8 153	6 402	27.4
Add back: Payment to Competition Commission	-	291	-
Add back: Payment to insurer for post-retirement medical aid	-	1 950	-
Add back: Package cost paid	1 688	325	419.4
Adjusted cash generated from operations	9 841	8 968	9.7
Cash paid for capital expenditure	(5 941)	(5 070)	(17.2)
Free cash flow	3 900	3 898	-

#### 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 Operating Support System (OSS) and Business Support System (BSS) programme.

Group capital expenditure, which includes spend on intangible assets, increased 16.8 percent to R6 090 million (March 2015: R5 214 million) and represents 16.3 percent of group operating revenue (March 2015: 15.9 percent).

Group capital expenditure In ZAR millions	March 2016	March 2015	%
Fibre to home	757	252	200.4
Mobile	660	481	37.2
OSS/BSS programme	544	404	34.7
Network rehabilitation/sustainment	674	429	57.1
Service on demand	1 540	1 492	3.2
Next generation network	553	857	(35.5)
Other	1 033	1 036	(0.3)
Telkom	5 761	4 951	16.4
BCX	139	-	-
Other			
Trudon	63	50	26.0
Swiftnet	26	20	30.0
Capital expenditure included in PPE	5 989	5 021	19.3
Capital inventory	101	193	(47.7)
Total	6 090	5 214	16.8

The Fibre to the Home expenditure of R757 million (March 2015: R252 million) has been aligned to the company strategy and there is an enhanced focus on fibre deployment, with a stated plan to pass one million homes by 2018.

Mobile capital expenditure increased 37 percent to R660 million (March 2015: R481 million), due to the focus on continued LTE deployment, for the provision of fixed wireless access via LTE and Mobile LTE products and is intended to project and grow our customer base.

OSS/BSS programme expenditure increased 34.7 percent to R544 million (March 2015: R404 million) and is focused on operational and business support systems to ensure fulfilment assurance and billing requirements relating to our product portfolio. The 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 R674 million (March 2015: R429 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 ADSL services.

Service on Demand expenditure increased 3.2 percent to R1 540 million (March 2015: R1 492 million). Service on Demand provides network "last-mile" connectivity and the related customer premises equipment to fulfil customer orders.

The expenditure on the next generation network decreased from R857 million in March 2015 to R553 million in March 2016 due to the prioritisation of the Fibre to the Home/Business and the OSS/BSS programmes.

Other capital expenditure of R1 033 million (March 2015: R1 036 million) is due to enhanced operating and capital expenditure efficiencies, incremental revenue growth, buildings and our Centurion campus optimisation.

#### Annexure A

Below are the results of BCX for the seven months ended 31 March 2016 that have been consolidated before inter-group eliminations:

	March 2016
Operating revenue	4 810
Cost of sales*	3 526
Net revenue	1 284

Other income	16
Operating expenses	1 026
EBITDA	274
Depreciation, ammortisation, impairments and write-offs	61
EBIT	213
Profit for the year	132

\*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.

CONDENSED CONSOLIDATED PROVISIONAL FINANCIAL STATEMENTS

Condensed consolidated provisional statement of profit or loss and other comprehensive income for the year ended 31 March 2016

		2016	Restated*
	Notes	Rm	2015 Rm
Continuing operations			
Operating revenue	4	37 325	32 760
Payments to other operators	5.1	2 793	2 930
Cost of sales	5.2	6 969	3 249
Net operating revenue		27 563	26 581
Other income	4	1 281	731
Operating expenses		20 083	18 471
Employee expenses	5.3	10 901	9 462
Selling, general and administrative expenses	5.4	4 978	4 755
Service fees	5.5	3 106	3 219
Operating leases		1 098	1 035
EBITDA		8 761	8 841
Depreciation of property, plant and equipment	5.6	4 370	4 506
Amortisation of intangible assets	5.6	902	779
Write-offs, impairment and losses of property, plant and equipment and intangible assets	5.6	170	220
Operating profit		3 319	3 336
Investment income	4	203	293
Finance charges and fair value movements		622	473
Finance charges		521	562
Foreign exchange and fair value movements		101	(89)
Profit before taxation		2 900	3 156
Taxation expense/(income)	6	524	(28)
Profit for the year		2 376	3 184
Items that may be reclassified subsequently to profit and loss			
Exchange losses on translating foreign operations		(9)	-
Items that will not be reclassified to profit and loss			
Defined benefit plan actuarial gains/(losses)		191	(1 953)
Income tax relating to actuarial gains/losses		-	282
Defined benefit plan asset ceiling limitation		86	699
Income tax relating to asset ceiling limitation		-	(125)
Other comprehensive income/(loss) for the year, net of taxation		268	(1 097)
Total comprehensive income for the year		2 644	2 087
Profit attributable to:			
Owners of Telkom		2 246	3 079
Non-controlling interest		130	105
Profit for the year		2 376	3 184
Total comprehensive income attributable to:			
Owners of Telkom		2 514	1 982
Non-controlling interest		130	105
Total comprehensive income for the year		2 644	2 087
Total operations			
Basic earnings per share (cents)	7	439.4	603.0
Diluted earnings per share (cents)	7	432.8	590.7

\*Refer to note 2.3 and note 8.

Condensed consolidated provisional statement of financial position  
at 31 March 2016

	Notes	2016 Rm	Restated* 2015 Rm
<b>Assets</b>			
Non-current assets		33 875	30 855
Property, plant and equipment	9	25 357	24 479
Intangible assets	9	4 584	2 982
Other investments		2 318	2 231
Employee benefits	10	846	452
Other financial assets		55	28
Finance lease receivables		281	413
Deferred taxation	14	434	270
Current assets		12 912	11 127
Inventories	12	971	638
Income tax receivable		57	11
Current portion of finance lease receivables		207	200
Trade and other receivables		7 375	5 388
Current portion of other financial assets	11	1 754	1 247
Cash and cash equivalents	13	2 548	3 643
<b>Total assets</b>		<b>46 787</b>	<b>41 982</b>
<b>Equity and liabilities</b>			
Equity attributable to owners of the parent		26 134	24 864
Share capital		5 208	5 208
Share-based compensation reserve		241	126
Non-distributable reserves		1 507	1 507
Retained earnings		19 178	18 023
Non-controlling interest		473	363
<b>Total equity</b>		<b>26 607</b>	<b>25 227</b>
Non-current liabilities		7 104	5 272
Interest-bearing debt	17	4 566	3 244
Employee-related provisions	18	1 665	1 264
Non-employee related provisions	18	66	61
Deferred revenue		656	687
Deferred taxation	14	151	16
Current liabilities		13 076	11 483
Trade and other payables	19	7 134	5 635
Shareholders for dividend		22	19
Current portion of interest-bearing debt	17	703	1 612
Current portion of employee-related provisions	18	2 231	1 882
Current portion of non-employee related provisions	18	142	303
Current portion of deferred revenue		1 708	1 502
Income tax payable		675	344
Current portion of other financial liabilities	11	455	185
Credit facilities utilised	13	6	1
<b>Total equity and liabilities</b>		<b>46 787</b>	<b>41 982</b>

\*Refer to note 2.4.

Condensed consolidated provisional statement of changes in equity  
for the year ended 31 March 2016

	2016 Rm	Restated* 2015 Rm
Balance at 1 April	25 227	23 148
Attributable to owners of Telkom	24 864	22 771
Non-controlling interests	363	377
Total comprehensive income for the year	2 644	2 087
Profit for the year	2 376	3 184
Other comprehensive income/ (loss)	268	(1 097)
Exchange losses on translating foreign operations	(9)	-
Net defined benefit plan remeasurements	277	(1 097)
Dividend declared**	(1 405)	(119)
Acquisition of subsidiaries with non-controlling interest (refer to note 16)	126	-
Acquisition of non-controlling interest (refer to note 16)	(100)	-
Adjustment to shares held in escrow	-	(4)
Increase in share-compensation reserve	115	115
Balance at 31 March	26 607	25 227

Attributable to owners of Telkom  
Non-controlling interests

26 134  
473

24 864  
363

\*Refer to note 2.3

\*\*Dividend declared in the prior year relates to the non-controlling interests of the Trudon Group.

Condensed consolidated provisional statement of cash flows  
for the year ended 31 March 2016

		2016	Restated**
	Notes	Rm	2015 Rm
Cash flows from operating activities		6 751	6 281
Cash receipts from customers		37 690	32 952
Cash paid to suppliers and employees		(28 946)	(26 153)
Cash generated from operations		8 744	6 799
Interest received		465	502
Finance charges paid		(768)	(493)
Taxation paid		(288)	(406)
Cash generated from operations before dividend paid		8 153	6 402
Dividend paid		(1 402)	(121)
Cash flows from investing activities		(8 265)	(5 168)
Proceeds on disposal of property, plant and equipment and intangible assets		567	253
Acquisition of subsidiary (BCX), net of cash acquired	16.1	(2 255)	-
Proceeds on disposal of investment		-	750
Investments made by FutureMakers		(13)	-
Acquisition of non-controlling interest by BCX	16.3	(89)	-
Additions to assets for capital expansion*	9	(5 941)	(5 070)
Increase in repurchase agreements		(534)	(1 101)
Cash flows from financing activities		412	685
Loans raised		4 020	1 000
Loans repaid		(3 746)	(310)
Finance lease repaid		(430)	(170)
Proceeds from net derivatives		568	165
Net (decrease)/increase in cash and cash equivalents		(1 102)	1 798
Net cash and cash equivalents at beginning of year		3 642	1 841
Effect of foreign exchange rate gains on cash and cash equivalents		2	3
Net cash and cash equivalents at end of year	13	2 542	3 642

\* Includes R83 million (2015: R137 million) inventory purchases in the current financial year.

\*\*Refer to note 2.5

NOTES TO THE CONDENSED CONSOLIDATED PROVISIONAL ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 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

2.1 Basis of preparation

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

The condensed consolidated provisional annual financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. Details of the group's significant accounting policies are consistent with those applied in the previous financial year except for those listed below.

Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated provisional annual 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 2015.

#### Significant accounting policies

The condensed consolidated provisional annual financial statements have been prepared in accordance with the accounting policies adopted in the group's last annual financial statements for the year ended 31 March 2015, except for the adoption of the amendments, new standards and remeasurements described below and note 2.2.

The following new standards and amendments to standards have been adopted.

#### IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Amendment to the accounting treatment of changes to a plan of sale or to a plan of distribution to owners. The amendment clarifies that changing between disposal methods would not be considered a new plan of disposal but rather a continuation of the original plan. This amendment has been adopted and has no impact on the group.

Effective date: 1 January 2016

#### IFRS 7 Financial Instruments Disclosures

Servicing contracts disclosures: Application guidance to clarify whether a servicing contract gives rise to continuing involvement in a transferred asset for the purposes of determining the transfer disclosure requirements. This amendment has been adopted and has no impact on the group.

Effective date: 1 January 2016

#### IFRS 7 Financial Instruments Disclosures

Offsetting disclosures to the condensed interim financial statements: Amendment clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34. As per this amendment the IFRS 7 amendment is only applicable to the condensed interim financial statement to the extent that it is required by IAS 34 and provides an update to information provided in the most recent annual report.

Effective date: 1 January 2016

#### IFRS 14 Regulatory Deferral Accounts

This new standard describes the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. This standard is applicable to first time adopters of IFRS.

This amendment is not applicable to Telkom.

Effective date: 1 January 2016

#### IAS 1 Presentation of Financial Statements

Amendment aiming to ensure that an entity does not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. This amendment has been adopted and has no material impact on the group.

Effective date: 1 January 2016

#### IAS 19 Employee Benefits

Discount rate: requirement to use the market yields on government bonds denominated in the currency of high quality corporate bonds in cases where there is no deep market for such bonds for the purpose of discounting post-employment benefit obligations. This amendment has been adopted and has no impact on the group.

Effective date: 1 January 2016

#### IAS 34 Interim Financial Reporting

Certain disclosures are to be given either in the interim financial statements or incorporated by a cross-reference from the interim financial statements to some other statement. These disclosures must also be available to users on the same terms and at the same time as the interim financial statements for the interim financial report to be complete. This amendment has been adopted and has no impact on the group.

Effective date: 1 January 2016

#### IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception

Amendment granting exemption from preparation of consolidated financial statements for an intermediate parent entity that is a subsidiary of an investment entity even if that parent entity measures all of its subsidiaries at fair value. Consequential amendments have also been made to IAS 28 exemption from applying the equity method for entities that are subsidiaries and hold interest in associate and joint venture. This amendment has been adopted and has no impact on the group.

Effective date: 1 January 2016

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

#### 2.2 Reassessment of the Telkom Retirement Fund Defined Benefit (DB) members

During the current reporting period, the group reassessed the accounting treatment of the Telkom Retirement Fund (TRF). The rules of the fund provide employees who were appointed prior to 1 September 2009 retiring from the defined contribution plan with an option to receive a pension from the fund.



Should a retiree elect to receive the pension, the employer is thereafter exposed to longevity and other actuarial risk. Such a pension is based on the plan assets allocated to the employee at the point of retirement based on the defined contribution portion of the plan. Those employees that do not elect to receive a pension from the fund would use their allocated plan assets to invest in annuities with unrelated parties. The classification rules within IAS 19 require that, where the employer is exposed to any actuarial risk, the entire fund be classified as a defined benefit plan (DB). This change in classification impacted the statement of financial position, the statement of profit and loss and other comprehensive income. At 31 March 2016 the obligation balance is R1.274 billion (Rnil 2014; R812 million 2015).

It should, however be noted that there is a difference between the IAS 19 project credit unit methodology valuations and the Fund actuaries' valuation, which reflects that the assets of the TRF are sufficient to cover the TRF's liabilities towards active members and pensioners. The TRF is in a sound financial condition as at the valuation date in terms of section 16 of the Pension Funds Act, as amended. As at the latest statutory valuation date there was a surplus of R536 million in the pensioners account per the statutory valuation (after taking into account the solvency reserve of R2.3 billion). Refer to note 2.3 and 2.4.

2.3 Adjustments to the consolidated statement of profit or loss and other comprehensive income

	As previously reported	Reclassification	For the year ended 31 March 2015
			Reassessment

Restated	As previously reported	Reclassification	For the year ended 31 March 2015
			Reassessment
	of Trudon group as not held for sale*		of Telkom Retirement Fund**
	Rm	Rm	Rm
Rm			
Continuing operations			
Operating revenue	31 675	1 085	
32 760			
Payments to other operators	2 930		
2 930			
Cost of sales	2 787	462	
3 249			
Net operating revenue	25 958	623	-
26 581			
Other income	699	32	
731			
Operating expenses	18 270	147	54
18 471			
Employee expenses	9 354	54	54
9 462			
Selling, general and administrative expenses	4 712	43	
4 755			
Service fees	3 212	7	
3 219			
Operating leases	992	43	
1 035			
EBITDA	8 387	508	(54)
8 841			
Depreciation of property, plant and equipment	4 500	6	
4 506			
Amortisation of intangible asset	758	21	
779			
Write-offs, impairment and losses of property, plant and equipment and intangible assets	220		
220			
Operating profit	2 909	481	(54)
3 336			
Investment income	283	10	
293			
Finance charges and fair value movements	471	2	-
473			
Interest	560	2	-
562			
Foreign exchange gains and fair value movements	(89)	-	-
(89)			
Profit before taxation	2 721	489	(54)
3 156			
Taxation (income)/expense	(168)	122	18
(28)			

Profit from continuing operations	2 889	367	(72)
3 184			
Profit from discontinued operations	367	(367)	-
-			
Profit for the year	3 256	-	(72)
3 184			
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses (1 953)	(944)	-	(1 009)
Defined benefit plan asset ceiling limitation	448	-	251
699			
Income tax relating to components of other comprehensive income	139	-	18
157			
Other comprehensive loss for the period, net of taxation	(357)	-	(740)
(1 097)			
Total comprehensive income for the year	2 899	-	(812)
2 087			
Total operations			
Basic earnings per share (cents)	617.1		
603.0			
Diluted earnings per share (cents)	604.5		
590.7			

\*Refer to note 8.

\*\* Refer to note 2.2.

#### 2.4 Adjustments to the consolidated statement of financial position

Restated	As previously reported	At 31 March 2015	
		Reclassification	Reassessment
		of Trudon group as not held for sale*	of Telkom Retirement Fund**
	Rm	Rm	Rm
Rm			
Assets			
Non-current assets	30 554	301	-
30 855			
Property, plant and equipment	24 387	92	-
24 479			
Intangible assets	2 793	189	-
2 982			
Other investments	2 231	-	-
2 231			
Employee benefits	452	-	-
452			
Other financial assets	28	-	-
28			
Finance lease receivables	413	-	-
413			
Deferred taxation	250	20	-
270			
Current assets	10 511	616	-
11 127			
Inventories	552	86	-
638			
Income tax receivable	1	10	-
11			
Current portion of finance lease receivables	200	-	-
200			
Trade and other receivables	4 895	493	-
5 388			
Current portion of other financial assets	1 247	-	-
1 247			
Cash and cash equivalents	3 616	27	-
3 643			
Assets of disposal group classified as held for sale	917	(917)	-
-			
Total assets	41 982	-	-
41 982			
Equity and liabilities			

Equity attributable to owners of the parent	25 676	-	(812)
24 864			
Share capital	5 208	-	-
5 208			
Share-based compensation reserve	126	-	-
126			
Non-distributable reserves	1 507	-	-
1 507			
Retained earnings	18 835	-	(812)
18 023			
Non-controlling interest	363	-	-
363			
Total equity	26 039	-	(812)
25 227			
Non-current liabilities	4 421	39	812
5 272			
Interest-bearing debt	3 244	-	-
3 244			
Employee-related provisions	437	15	812
1 264			
Non-employee related provisions	39	22	-
61			
Deferred revenue	687	-	-
687			
Deferred taxation	14	2	-
16			
Current liabilities	11 403	80	-
11 483			
Trade and other payables	5 571	64	-
5 635			
Shareholders for dividend	19	-	-
19			
Current portion of interest-bearing debt	1 612	-	-
1 612			
Current portion of employee-related provisions	1 867	15	-
1 882			
Current portion of non-employee related provisions	302	1	-
303			
Current portion of deferred revenue	1 502	-	-
1 502			
Income tax payable	344	-	-
344			
Current portion of other financial liabilities	185	-	-
185			
Credit facilities utilised	1	-	-
1			
Liabilities of disposal group classified as held for sale	119	(119)	-
-			
Total liabilities	15 943	-	812
16 755			
Total equity and liabilities	41 982	-	-
41 982			

\*Refer to note 8.

\*\*Refer to note 2.2.

## 2.5 Adjustments to the statement of cash flows

	As previously reported	At 31 March 2015 Reclassification of Trudon group as not held for sale*	Restated
	Rm	Rm	Rm
Cash flows from operating activities	6 226	55	6 281
Cash receipts from customers	31 852	1 100	32 952
Cash paid to suppliers and employees	(25 210)	(943)	(26 153)
Cash generated from operations	6 642	157	6 799
Interest received	470	32	502
Finance charges paid	(491)	(2)	(493)
Taxation paid	(274)	(132)	(406)
Cash generated from operations before dividend paid	6 347	55	6 402
Dividend paid	(121)	-	(121)
Cash flows from investing activities	(5 113)	(55)	(5 168)

Proceeds on disposal of property, plant and equipment and intangible assets	253	-	253
Proceeds on disposal of investment	750	-	750
Additions for capital expansion	(5 015)	(55)	(5 070)
Increase in repurchase agreements	(1 101)	-	(1 101)
Cash flows from financing activities	685	-	685
Loans raised	1 000	-	1 000
Loans repaid	(310)	-	(310)
Finance lease capital repaid	(170)	-	(170)
Settlement of derivatives	165	-	165
Net increase in cash and cash equivalents	1 798	-	1 798
Net cash and cash equivalents at beginning of year	1 841	-	1 841
Trudon cash and cash equivalents classified as held for sale	(27)	27	-
Effect of foreign exchange rate differences on cash and cash equivalents	3	-	3
Net cash and cash equivalents at end of year	3 615	27	3 642

\*Refer to note 8.

### 3. Segment information

The Telkom group is organised into business units based on products and services and has 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.

The Other segment represents Trudon, Swiftnet and other non-trading entities.

The group did not report segment information in the prior year as the chief operating decision-maker (CODM) managed the group business on a combined basis. During the current year the group acquired BCX and the CODM manages Telkom and BCX as two segments.

The executive committee assesses the performance of the operating segments based on a measure of operating profit.

The group announced its aspiration to implement a more flexible and agile operating model and launched Openserve on 13 October 2015 which will require a reassessment of segment reporting as progress is made in implementing the new operating and reporting model to manage performance.

Eliminations	Consolidated	Telkom	BCX	Other
Rm	Rm	Rm	Rm	Rm
2016				
Operating revenue		32 106	4 810	1 255
(846)	37 325			
External customers		32 064	4 116	1 145
-	37 325			
Inter-segment		42	694	110
(846)	-			
Reconciliation of operating profit to profit before tax				
EBITDA for reportable segments excluding voluntary packages		10 217	274	499
(36)	10 954			
Voluntary packages		(2 193)	-	-
-	(2 193)			
Depreciation, amortisation, impairment, write-offs and losses		(5 274)	(61)	(58)
(49)	(5 442)			
Operating profit		2 750	213	441
(85)	3 319			
Investment income		812	7	22
(638)	203			
Finance charges and fair value movement		(618)	(18)	-
14	(622)			
Profit before taxation		2 944	202	463
(709)	2 900			
2015				

Operating revenue	31 611	-	1 298
(149) 32 760			
External customers	31 576	-	1 184
- 32 760			
Inter-segment	35	-	114
(149) -			
Reconciliation of operating profit to profit before tax			
EBITDA for reportable segments excluding voluntary packages	8 972	-	524
(64) 9 432			
Voluntary packages	(591)	-	-
- (591)			
Depreciation, amortisation, impairment, write-offs and losses	(5 457)	-	(59)
11 (5 505)			
Operating profit	2 924	-	465
(53) 3 336			
Investment income	506	-	14
(227) 293			
Finance charges and fair value movement	(471)	-	(2)
- (473)			
Profit before taxation	2 959	-	477
(280) 3 156			

4. Total income		Restated
	2016	2015
	Rm	Rm
Operating revenue	37 325	32 760
Other income	1 281	731
Investment income	203	293

Operating revenue increased due to higher mobile data revenue, higher fixed-line subscription revenue, higher equipment sales and the consolidation of BCX. This is partially offset by the decline in fixed-line voice revenue and lower connectivity revenue.

Other income increased mainly as a result of higher profit on sale of Telkom properties.

Investment income decreased as a result of lower cash balances held by the group during the financial year.

5. Operating expenses		Restated
	2016	2015
	Rm	Rm
5.1 Payments to other operators	2 793	2 930
Payments to other operators decreased mainly due to the lower mobile termination rates.		
5.2 Cost of sales	6 969	3 249
The increase in cost of sales is largely attributable to the inclusion of BCX, amounting to R3.5 billion, and the increase in the sale of mobile devices.		
5.3 Employee expenses	10 901	9 462
The increase in employee expenses is mainly due to the voluntary severance packages (VSP) and voluntary early retirement packages (VERP), offered to employees, an average salary increase of 6% and the inclusion of BCX. This is offset by lower headcount from prior year VSP and VERP process.		
5.4 Selling, general and administrative expenses	4 978	4 755
The increase in selling, general and administrative expenses is mainly due to an increase in bad debts and outsourcing costs.		
5.5 Service fees	3 106	3 219
The effective management of property led to the decrease in service fees. This is partially offset by the company transformation cost and the inclusion of BCX.		
5.6 Depreciation, amortisation, impairment and write-offs	5 442	5 505
Depreciation of property, plant and equipment	4 370	4 506
Amortisation of intangible assets	902	779
Write-offs, impairment and losses of property, plant and equipment and intangible assets	170	220

The decrease is due to lower asset write-offs and lower accelerated depreciation.

6. Taxation expense/(income)		Restated
	2016	2015

	Rm	Rm
Taxation expense/(income)	524	(28)
South African normal company taxation	560	73
Deferred taxation	(15)	(101)
Withholding tax	1	-
Common control transaction	(22)	-

The higher group taxation is mainly due to the prior year being lower as a result of reduced assessments issued to the company and the reversal of provisions. In the prior year the company recognised a deferred tax asset of R250 million and in the current year no further deferred tax assets were recognised. The acquisition of BCX further contributed to the increase in the tax charge.

7. Earnings per share	2016	Restated 2015
Total operations		
Basic earnings per share (cents)	439.4	603.0
Diluted earnings per share(cents)	432.8	590.7
Headline earnings per share(cents)	330.0	593.2
Diluted headline earnings per share(cents)	325.1	581.1
Continuing operations		
Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Ordinary shares in issue	526 948 700	520 783 900
Weighted average number of shares held by subsidiaries and in escrow	(15 791 240)	(10 190 084)
Weighted average number of shares outstanding	511 157 460	510 593 816
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	511 157 460	510 593 816
Expected future vesting of shares	7 808 223	10 654 715
Diluted weighted average number of shares outstanding	518 965 683	521 248 531
Total operations	Rm	Rm
Reconciliation between earnings and headline earnings:		
Profit for the year	2 376	3 184
Non-controlling interests	(130)	(105)
Profit attributable to owners of Telkom	2 246	3 079
Profit on disposal of property, plant and equipment and intangible assets	(704)	(257)
Write-offs of property, plant and equipment and intangible assets	170	220
Taxation effects	(25)	(13)
Headline earnings	1 687	3 029

#### Dividend per share (cents)

The calculation of dividend per share is based on dividends of R1 291 million declared on 5 June 2015 and 526 948 700 number of ordinary shares outstanding on the date of dividend declaration. The dividend declared is made up of an ordinary dividend of 215 cents per share and a special dividend of 30 cents per share.

#### 8. Reclassification of discontinued operation

##### The Trudon group

On 27 November 2014, the Telkom board approved the disposal of Telkom's 64.9% shareholding in Trudon to Trumancon. This was part of Telkom's strategic imperative to focus on its fixed-line, mobile and Internet-based business.

In September 2015, the material conditions precedent of the proposed sale of Trudon were not met and therefore Trudon is no longer held for sale and will be consolidated into the results from continuing operations.

The consolidated statement of profit or loss and other comprehensive income and the statement of financial position and statement of cash flows for 31 March 2015 have been restated to re-integrate the numbers for the Trudon group. Refer to notes 2.3, 2.4. and 2.5.

9. Capital additions and disposals	2016	Restated 2015
	Rm	Rm
Property, plant and equipment		
Additions	5 263	4 039
Disposals	(231)	(16)
	5 032	4 023
Intangible assets		
Additions	726	987
Disposals	-	-
	726	987

The capital expenditure relates to the deployment of the next generation network, mobile cellular services and converged service offerings. The higher expenditure 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 R101 million (31 March 2015: R193 million) included in inventories will be used for Telkom's network expansion of which R83 million (31 March 2015: R137 million) was purchased in the current financial year.

Finance charges of R103 million (31 March 2015: R93 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

10. Employee benefits	2016	2015
	Rm	Rm
	846	452
Telkom Pension Fund asset	114	28
Post-retirement medical aid net plan asset	732	424

The assets recognised are determined in accordance with IAS 19.

11. Other financial assets and other financial liabilities	2016	2015
	Rm	Rm
Current other financial assets consist of:	1 754	1 247
Repurchase agreements	1 634	1 101
Derivative instruments	101	146
Forward exchange contracts	20	70
Firm commitments	43	5
Cross-currency swaps	38	71
Asset finance receivables	19	-

Repurchase agreements

The increase in other financial assets is as a result of a higher repurchase agreement balance at year end.

Current other financial liabilities consist of:	455	185
Forward exchange contracts	155	14
Firm commitments	293	170
Interest rate swaps	7	1

The increase in other financial liabilities is due to the volatility of the foreign exchange markets towards the end of the financial year and the weaker rand mainly against the US dollar year on year.

12. Inventories		Restated
	2016	2015
	Rm	Rm
Inventories	971	638
Gross inventories	1 062	730
Write-down of inventories to net realisable value	(91)	(92)

The increase in inventory is mainly due to an increase in merchandise stock and the consolidation of BCX.

13. Net cash and cash equivalents		Restated
	2016	2015
	Rm	Rm
Net cash and cash equivalents	2 542	3 642
Cash shown as current assets	2 548	3 643
Cash and bank balances	418	162
Short-term deposits	2 130	3 481
Credit facilities utilised	(6)	(1)

The lower cash balance is as a result of the acquisition of BCX, dividend payment and voluntary severance and retirement packages in the first six months of the year. This was partially offset by the increased cash generated from operations and loan raised.

14. Deferred taxation		Restated
	2016	2015
	Rm	Rm
Deferred taxation is made up as follows	283	254
Deferred taxation asset	434	270
Deferred taxation liability	(151)	(16)

Deferred tax assets and liabilities increased in the current year due to the consolidation of the BCX group.

#### 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 continually monitored by the board of directors through its audit committee and risk committee.

The condensed consolidated provisional annual financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in

conjunction with the group's annual financial statements as at 31 March 2016. The group uses derivatives as hedging instruments.

#### 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 the capital commitments of the group.

Liquidity risk is managed by the group's treasury department 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 2015 financial year end there was no material change in the contractual undiscounted cash outflows 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 569 million (2015: R5 312 million) and a carrying amount of R 5 269 million (2015: R4 856 million) (refer to note 17).

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

Type of financial instrument	Fair value at	Valuation
Significant	31 March 2016	technique
inputs	Rm	
Receivables, bank balances, repurchase agreements, Probability of default and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	6 767	Undiscounted future estimated cash flows due to short-term maturities of these instruments
Derivatives	(316)	Discounted cash flows
Yield curves, Market interest rate, Market foreign currency rate		
Borrowings	(5 569)	Discounted cash flows and
Market interest rate,		quoted bond prices
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. The fair values of the financial assets and financial liabilities are sensitive to exchange rate and interest rate movements.

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 values 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 that follows 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).

	Hierarchy levels	2016 Rm	2015 Rm
Assets measured at fair value			
Investment in cell captive preference shares	Level 2	2 235	2 227
Investment by FutureMakers	Level 3	13	-
Forward exchange contracts	Level 2	21	70



Asset finance receivable	Level 2	39	-
Loans	Level 2	35	-
Firm commitments	Level 2	43	5
Cross-currency swaps	Level 2	38	99
Liabilities measured at fair value			
Interest rate swaps	Level 2	(7)	(1)
Firm commitments	Level 2	(293)	(170)
Forward exchange contracts	Level 2	(155)	(14)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
		(5 569)	(5 312)
Quoted debt securities	Level 1	(2 162)	(3 355)
Unquoted debt securities	Level 2	(3 407)	(1 957)

16. Acquisition of subsidiaries 2016  
Rm

16.1 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, runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable Telkom to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance Telkom's convergence strategy.

The acquisition has been accounted for using the acquisition method.

The date of acquisition is 31 August 2015 and the annual financial statements include the BCX results for the seven months ended 31 March 2016.

The fair values of the identifiable assets and liabilities at acquisition date were determined as follows:

Assets		
Property, plant and equipment	461	
Intangible assets	652	
Investment in joint venture and associates and long-term loan receivable	74	
Deferred tax	117	
Trade and other receivables	1 822	
Inventories	227	
Income tax receivable	14	
Cash and cash equivalents	399	
Total assets	3 766	
Liabilities		
Long-term debt	300	
Non-current finance leases	38	
Deferred taxation	129	
Non-current provisions	5	
Trade and other payables	1 192	
Current portion of long-term debt	169	
Current portion of finance leases	23	
Income tax payable	23	
Current portion of provision	158	
Contingent liability	68	
Total liabilities	2 105	
Total identifiable net assets at fair value	1 661	
Non-controlling interest at proportional share of net assets	126	
Goodwill arising on acquisition	1 119	
Purchase consideration transferred	2 654	

Analysis of cash flows at acquisition:  
Net cash acquired with the subsidiary (included in cash flows from investing activities)

Cash paid	2 654
BCX cash at acquisition	(399)
Net cash flow on acquisition	2 255

At the date of the acquisition, the fair value of the trade receivables at R1 424 million approximated its carrying value.

From the date of acquisition, BCX has contributed R4 116 million of revenue and R499 million loss to the net profit before tax from the continuing operations of the group. This is after eliminating inter-company revenue of R694 million. If the acquisition had taken place at the beginning of the year, Telkom group revenue from continuing operations would have been R40 768 million and the Telkom group profit from continuing operations for the period would have been R2 524 million.

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

Transaction costs of R103 million, which include issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

As at 31 March 2016, the BCX and Telkom initial business combination was complete.

A contingent liability of R68 million was recognised at acquisition of BCX. The amount is an estimate in relation to BCX tax matters in Africa. The timing and the actual amount of this obligation is uncertain.

#### 16.2 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.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 November 2015 and the financial statements include the Anco results for the five months ended 31 March 2016.

The fair value of the identifiable assets and liabilities at acquisition date were determined as follows:

	2016 Rm
Assets	
Investment in joint venture and associates and long-term loan receivable	2
Deferred tax	2
Trade and other receivables	7
Cash and cash equivalents	3
Total assets	14
Liabilities	
Trade and other payables	3
Income tax payable	2
Total liabilities	5
Total identifiable net assets at fair value	9
Goodwill arising on acquisition (provisional)	32
Purchase consideration transferred	41
Analysis of cash flows at acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	3
Cash paid	9
Net cash flow on acquisition	6
Deferred purchase consideration	33

The earn out payments are based on the period as defined in the contract.

The amount recognised is based on the likelihood of the company reaching the targets and is calculated as the present value of the earn out payments. The deferred purchase consideration was also calculated in accordance with the purchase agreement.

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R7 million.

From the date of acquisition, Anco has contributed R15 million of revenue and R1 million to the net profit from the continuing operations of the group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R4,8 billion and the BCX group profit from continuing operations for the period would have been R133 million.

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

Transaction costs of R0,7 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

The business combination was provisional and incomplete at the time the financial statements were authorised for issue.

- 16.3 UCS Solutions (Pty) Ltd (UCS) minority interest  
On 31 December 2015 the Telkom Group, through the BCX group, acquired the remaining 15% of the UCS Solution (Pty) Ltd (and its holding in Integr8 IT (Pty) Ltd), 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.

- 16.4 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 a common control transaction. BCX recognised the acquired DCO assets at their carrying amount on 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.

#### 16.5 Goodwill reconciliation

	Rm
The group's 2016 goodwill balance is reconciled as follows:	
Opening balance (restated)	63
Acquisition of BCX*	1 119
Acquisition of Anco IT (Pty) Ltd (provisional)	32
Impairment	-
Closing balance	1 214

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

17. Interest-bearing debt	2016	2015
	Rm	Rm
Non-current interest-bearing debt	4 566	3 244
Local debt	4 340	2 605
Foreign debt	154	101
Finance leases	72	538
Current portion of interest-bearing debt	703	1 612
Local debt	654	1 260
Foreign debt	18	239
Finance leases	31	113

The current portion of interest-bearing debt of R703 million (nominal) as at 31 March 2016 is expected to be repaid from available cash or operational cash flow.

18. Provisions	2016	Restated 2015
	Rm	Rm
Non-current portion of provisions	1 731	1 325
Employee related	1 665	1 264
Non-employee related	66	61
Current portion of provisions	2 373	2 185
Employee related	2 231	1 882
Non-employee related	142	303

The increase in the non-current employee related provision is due to the change in the current financial year post employee benefit actuarial assumptions as well as the curtailments due to the VSP and VERP process.

The increase in the current employee provision is due to the inclusion of BCX and the voluntary packages approved at year end. This is partially offset by a lower annual leave provision.

The decrease in the current-non employee related provisions is due to the settlement of the Pretoria campus site restoration provision and other related provisions. The final Competition Commission payment was also made during the current financial year.

19. Trade and other payables	2016	Restated 2015
	Rm	Rm
Trade and other payables	7 134	5 635
Trade payables	3 872	2 797
Finance cost accrued	54	108
Accruals and other payables	3 208	2 730

The increase in trade and other payables balances is mainly due to the payables consolidated as a result of the acquisition of BCX. 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 21.

## 20. Commitments

	2016 Rm	Restated 2015 Rm
Capital commitments authorised	6 574	5 556
Commitments against authorised capital expenditure	3 388	1 057
Authorised capital expenditure not yet contracted	3 186	4 499

Capital commitments are largely attributable to purchases of property, plant and equipment and software.

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

## 21. Contingencies

### Contingent liabilities

#### Matters before Icasas

##### End-User and Service Charter Regulations

In 2011, allegations were made at ICASA Complaints and Compliance Committee (the CCC) regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter Regulations relating to the clearance of reported faults. The CCC heard the matter and ruled that Telkom is not in breach of the Regulations and recommends that ICASA review the Regulations. Telkom has initiated administrative review proceedings seeking to set aside the applicability of the Regulations since the CCC ruling is not binding on ICASA and the risk remains of similar referrals. The review application is in process and no hearing date has been allocated as yet. ICASA promulgated the Amended End-User and Subscriber Charter Regulations 2016 on 1 April 2016 and we are currently assessing the impact that the new regulations will have on the review proceedings and Telkom going forward.

#### High Court

##### Neotel/Telkom: CCC

Neotel requested Telkom to provide access to Telkom's local loop in November 2010. Telkom declined the request and Neotel submitted a formal complaint to the CCC which made an order directing Telkom to provide Neotel access to Telkom's local loop. Telkom launched an interim relief application in the High Court for an order that the CCC order should not be implemented pending the outcome of a review application in the High Court to review and set aside the CCC order. The parties have since reached an agreement in terms of which Telkom withdrew its application for interim relief and ICASA in turn undertook not to implement the CCC order pending the outcome of Telkom's application for review. No date has been set down as yet for the hearing of the review application.

#### 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. RSSS is relying on a quotation which it gave to a former Telkom employee. There was no written contract. No purchase orders were issued by Telkom to RSSS. There is also no acceptance of the quotation by Telkom. The matter is set down for trial from 30 May 2016 until 10 June 2016 in the North Gauteng High Court.

#### 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 has been set down for hearing in September 2016.

#### Other

##### Section 197: Labour Relations Act

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 as 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 2014 consolidated annual financial statements the tax treatment of the loss that arose in the 2012 and 2014 financial years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. A tax refund received during the prior financial year, relating to the 2012 sale, is contingent and will only be recognised once the matter has been resolved with SARS. Refer to note 19.

## 22. Related parties

Restated

	2016 Rm	2015 Rm
Details of material transactions and balances with related parties were as follows:		
With shareholders:		
Government of South Africa		
Related party balances		
Finance lease receivable	272	366
Trade receivables	562	464
Provision for doubtful debt	(67)	(16)
Related party transactions		
Revenue	(3 700)	(3 770)
Individually significant revenue	(1 494)	(1 870)
City of Cape Town	(41)	(41)
Department of Correctional Services	(78)	(82)
Department of Health: Gauteng	(95)	(389)
Department of Justice	(104)	(109)
South African National Defence Force	(66)	(69)
South African Police Services	(577)	(628)
South African Revenue Services	(28)	(34)
S.I.T.A. (Pty) Ltd	(201)	(205)
South African Post Office	(37)	(55)
Ekurhuleni Metropolitan Council	(57)	(52)
KZN Ethekewini Municipality	(44)	(46)
Department of Internal Affairs	(53)	(61)
Eastern Cape Department of Health**	(49)	(38)
Province of KZN Health Service**	(64)	(61)
Collectively significant revenue*	(2 206)	(1 900)

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

\*\*Individually significant from the current year.

At 31 March 2016, the Government of South Africa held 39.3% (2015: 39.8%) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 11.4% (2015: 12%) of Telkom's shares.

With entities under common control:

Major public entities		
Related party balances		
Trade receivables	130	75
Trade payables	(5)	(1)
Related party transactions		
Revenue	(394)	(243)
Expenses	226	238
Individually significant expenses	207	226
South African Post Office	52	77
Eskom	155	144
South African Broadcasting Corporation	-	5
Collectively significant expenses	19	12
Rent received	(28)	(53)
Individually significant rent received:		
South African Post Office	(25)	(46)
Collectively significant rent received	(3)	(7)
Rent paid	10	29
Individually significant rent paid:		
South African Post Office	5	19
Collectively significant rent paid	5	10

Key management personnel compensation:

(Including directors' and prescribed officers' emoluments)

Related party transactions		
Short-term employee benefits*	236	214
Post-employment benefits	17	12
Termination benefits	14	5
Equity compensation benefits	1	4

Terms and conditions of transactions with related parties

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.

\*Short term incentives has not yet been allocated but is included in employee expenses.

23. Significant events

#### Issuing of ordinary shares

On 30 June 2015 Telkom issued 3 979 348 ordinary shares for no consideration. The shares were allotted and issued in terms of the Telkom Employee Share Plan.

#### Company secretary

Ms Xoliswa Mpongsohe Makasi resigned from her position as company secretary of Telkom with effect from 30 June 2015. Ms Ephenia Motlhamme was appointed as company secretary to the group with effect from 1 August 2015.

#### Results of the Telkom Annual General Meeting regarding directors' reappointments

On 26 August 2015 all board members were re-elected as per the annual general meeting ordinary resolutions.

#### MTN and Telkom Radio Access Network (RAN) assets transaction

On 7 March 2014 Telkom signed a heads of agreement in terms of which MTN South Africa would take over the financial and operational responsibility for the roll-out and operation of Telkom's RAN. The parties wanted reciprocal roaming agreements to enable customers of either party to roam on each other's network.

On 17 August 2015 Telkom was informed by the Competition Commission that it had recommended to the Competition Tribunal that the transaction be prohibited. The parties have agreed not to proceed with the transaction in its current form.

#### Acquisition of Business Connexion (BCX)

On 22 May 2014 Telkom announced its firm intention to make an offer to acquire the entire issued share capital of BCX in a bid to improve performance and restore profitability.

Shareholders of BCX approved the acquisition by Telkom at an ordinary shareholders meeting held on 11 August 2014. On 4 August 2015 the Competition Tribunal approved the transaction between the companies with conditions. All suspensive conditions were met and the purchase consideration was paid on 25 August 2015.

#### Voluntary severance packages and voluntary early retirement packages

Telkom announced on 13 July 2015 the offer of VSPs and VERPs to non-unionised employees across the company. On 24 July 2015 Telkom announced the decision to extend the invitation to all employees, including union members.

The application process was concluded on 17 August 2015.

On 18 March 2016 Telkom announced the offer of VSP and VERP to all employees, including union members across the company. The application process was concluded on 4 April 2016.

Approximately 3 878 employee applications were accepted during the financial year.

#### Dividends

The Telkom board declared an ordinary dividend of 215 cents per share and a special dividend of 30 cents per share on 5 June 2015 payable on 20 July 2015 to shareholders registered on 17 July 2015.

#### Pretoria Head Office

In September 2015, Telkom settled its lease obligation for the buildings with the Telkom Retirement Fund (TRF). Telkom also purchased a previously leased property from the TRF.

#### FutureMakers

Telkom has implemented an Enterprise and Supplier Development (ESD) programme. As part of the programme, Telkom in partnership with Identity FutureFund (Pty) Ltd (IDF), established FutureMakers, in terms of the Department of Trade and Industry's Codes of Good Practice on Black Economic Empowerment 2007, as amended (the Codes) and specifically, in terms of the Information and Technology Charter (the ICT Charter). The Partnership and its initiatives is established in line with Telkom's sustainable strategy of implementing meaningful black economic empowerment (BEE) initiatives.

The inception year of the programme focused on the setup and development of key commercial programmes namely, Internet Cafes, 3rd party dealerships, Independent Field Technicians and a Cisco partnership.

#### Launch of redesigned wholesale division

On 13 October 2015 Telkom launched Openserve, the group's redesigned wholesale and networks division. Openserve will be a distinct business unit within the Telkom group, which is formed as part of the group's ongoing efforts to strengthen customer focus through a more flexible and agile operating model. The separation heralds a new era in the Telkom group as it prepares to welcome a more open access environment and all the opportunities it offers. This move is also in line with Telkom's turnaround strategy to separate its wholesale and retail divisions to facilitate greater focus, accountability and most importantly, customer-centricity.

As a key driver of socio-economic development, Openserve will enable more choice, increased innovation and greater service-provider competition. The result will be increased broadband access. Telkom intends to play a substantial role in lowering the barrier to entry for new players and to increase the competitiveness of smaller players.

#### 24. Subsequent events

#### 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 Telkom Employee Share Plan.

#### BCX's acquisition of Relational Database Consulting (RDC)

Effective 1 April 2016 Business Connexion acquired Relational Database Consulting group (Pty) Ltd (RDC). RDC is a market leader in database and system administration with a strong focus on Oracle, SQL Server, MySQL and PostgreSQL on a variety of operating systems. Their expanded range of services includes Oracle E-Business Suite, Oracle Fusion Middleware, Oracle Solaris Support and Oracle Sales.

The total purchase consideration of R32 million was in the form of cash and earn out payments. The provisional fair value of the assets and liabilities were R23 million and R17 million respectively. A provisional goodwill of R26 million was recognised. The business combination was provisional and incomplete at the time the financial statements were authorised for issue.

#### Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 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.

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

#### Telkom SA SOC Ltd

(Registration number 1991/005476/30)

JSE share code: TKG

ISIN: ZAE000044897

#### Group secretary

E Motlhamme

#### Transfer secretaries

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#### Directors

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6 June 2016