

TELKOM INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013



GROUP SALIENT FEATURES

ADSL subscribers increased 6.7% to 898,203.

Calling plan subscribers increased 2.0% to 860,161.

MANAGED DATA NETWORK SITES INCREASED 12.8% TO 45,441.

Active mobile subscribers increased 6.9% to 1,598,173 with a blended ARPU of R58.81.

Mobile sites integrated increased 28.3% to 2,238.

871 LTE sites integrated.

Operating revenue up 0.3% to R16.2 billion.

- Fixed-line voice and inter-connection revenue decreased 4.7% to R8.7 billion.
- Fixed-line data revenue increased 1.2% to R5.2 billion.
- Mobile revenue increased 55.4% to R926 million.
- Mobile data revenue increased 50.0% to R303 million.

EBITDA margin excluding the net curtailment gain and Competition Commission provision was relatively flat at 24.3%.

HEADLINE EARNINGS PER SHARE EXCLUDING THE NET CURTAILMENT GAIN INCREASED SIGNIFICANTLY TO 224.2 CENTS.

The Group generated free cash flow of R33 million, a 97.8% decrease from the previous period.

Group interest bearing debt decreased 34.9% to R4.3 billion.

Message from Telkom Group CEO Siphso Maseko

The Group's financial performance indicates a challenging industry environment. Despite a considerable increase in the Group's earnings, owing to several once-off items, underlying operational earnings remain under pressure. The Group reported Headline earnings, excluding the net curtailment gain recognised on the post-retirement medical aid liability, of 224.2 cents from 101.1 cents. This also excludes the provision for Competition Commission fine in the prior reporting period. The increase was primarily due to lower payments to mobile operators resulting from the reduction in mobile termination rates and higher fair value gains as a result of the weakening of the Rand.

Operating revenue increased slightly by 0.3% to R16,192 million due to higher mobile data and Business IT service revenue, partially offset by lower fixed-line voice revenue. We are encouraged by the improvement in mobile data revenue which increased 50.0% to R303 million resulting from an increase in the number of data subscribers and data deals and promotions launched during the period. However, we are continuing to explore all avenues to de-risk the Mobile business.

Operating expenses decreased by 18.1% to R10,323 million. This is due to the R2,173 million net curtailment gain and the R389 million provision for the Competition Commission fine included in the prior reporting period. Excluding the gain and Competition Commission provision in the previous year, operating expenses would have increased 2.4%.

Our capital structure remains sound despite large cash outflows resulting from payments of severance packages, part of the Competition Commission fine and an increase in our capital expenditure. We continue to invest in modernising our network to provide high speed, quality and reliable broadband to South Africans. For the 2014 financial year, management has taken a prudent approach to cap its capital expenditure to R6.5 billion while the group reviews its options, particularly in mobile.

Telkom's Board and management team have already resolved several long term issues affecting the performance of the Group. This includes impairing a large portion of the Group's legacy assets, settling Competition Commission matters, successfully addressing unfair and uncompetitive mobile termination rates and reviewing the post-retirement medical aid liability.

Defining our role clearly as a listed national incumbent will allow us to address the dichotomy in shareholder expectations. Through its people, technology and infrastructure, Telkom has the unique opportunity to meet the needs of all its stakeholders: our shareholders, customers, employees and the broader society in which we operate. To achieve this, we must prioritise our objectives to shape the Group's strategic imperatives and ensure we succeed in the following key areas:

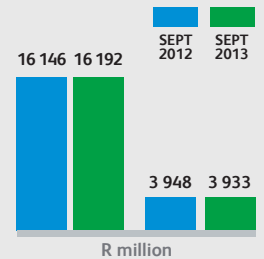
- **Financial performance** – strategic capital allocations, returns driven to restore financial health
- **Customer perception** – deliver superior customer service and experience
- **Operational excellence and efficiency** – drive execution capability and connectivity to “own the home”
- **Infrastructure quality** – invest in the right technologies
- **Alignment of all stakeholders** – Telkom cannot deliver on its strategy without the support of all its stakeholders

Telkom is instilling a disciplined approach to capital allocation. We will invest in areas where we have leadership, and place a greater emphasis on productivity and returns. Infrastructure investment in particular will be returns-driven.

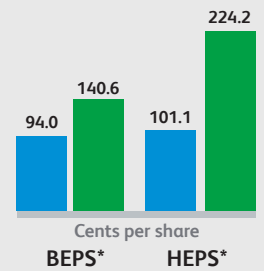
Telkom has the most extensive infrastructure network in the country. We need to monetise that advantage and drive the take-up in high-speed broadband services enabled by the New Generation Network (NGNEC). The National Broadband Plan is an opportunity for Telkom to improve the scale and efficiency of its network.

There is a window of opportunity for Telkom to become the leader in data transmission, but we must act with speed and determination to commercialise our competitive advantage.

> Key indicators



* Excluding the curtailment gain in September 2013 and Competition Commission provision in September 2012.



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