

FIRM INTENTION ANNOUNCEMENT

**Business
Connexion**

Connective Intelligence™

Telkom

BUSINESS CONNEXION GROUP LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1988/005282/06)

JSE code: BCX
ISIN: ZAE0000154631
("BCX" or the "Company")

TELKOM SA SOC LIMITED
(Incorporated in the Republic South
Africa)

(Registration number 1991/005476/30)
JSE code: TKG
ISIN: ZAE000044897
("Telkom")

**JOINT ANNOUNCEMENT OF THE FIRM INTENTION BY TELKOM TO MAKE A CASH
OFFER TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF BCX**


1. INTRODUCTION

Further to the BCX cautionary announcement released on the Securities Exchange News Service of the JSE Limited ("JSE") on 15 April 2014 ("Cautionary Announcement"), shareholders of BCX are advised that on 21 May 2014, BCX entered into an implementation agreement ("Implementation Agreement") with Telkom in terms of which Telkom, *inter alia*, offered to acquire (i) the entire issued ordinary share capital of BCX, excluding the BCX ordinary shares held by Business Connexion Proprietary Limited as treasury shares ("Ordinary Scheme Shares"), and (ii) the entire issued "A" ordinary share capital of BCX ("A Scheme Shares") (collectively "Scheme Shares"), ("Proposed Transaction").

It is the intention of Telkom to terminate the listing of the BCX ordinary shares on the main board of the JSE should the Proposed Transaction be implemented.

2. INFORMATION ABOUT BCX

BCX is one of the largest information and communications technology ("ICT") services providers listed on the JSE when measured in terms of turnover, total assets and staff complement. BCX is a leading South African cloud based services providers with offices in Africa, the United Kingdom and Dubai. The Company employs more than 6,700 people on the African continent and generates revenue in excess of R6 billion per annum.

SMM 

3. INFORMATION ABOUT TELKOM

Telkom is a full-service telecommunications provider for South Africa. It offers wholesale, business, residential and payphone customers a wide range of voice and data services and products, in support of the company's mission statement – "seamlessly connecting people to a better life". As of 30 September 2013, Telkom had approximately 3.7 million telephone access lines in service and 183 880 ports connected via multi-service access node access.

Telkom offers business, residential and payphone customers a wide range of services and products, including:

- fixed-line retail voice services using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and calling plans;
- fixed-line customer premises equipment rental and sales services both voice and data needs and these include PABX (Private Automatic Branch Exchange), Computers, Routers, Modems, Telephone handsets and other ancillary equipment;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
- fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- data Centre Operations includes e-commerce, application service provider, hosting, data storage, e-mail and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- mobile communication services, including voice services, data services and handset sales through our mobile brand called Telkom Mobile; and
- convergence is one of Telkom's key strategic initiatives in building a sustainable future for Telkom.

The Telkom Group consists of Telkom as well as two main subsidiaries, namely Trudon Proprietary Limited ("Trudon") and Swiftnet Proprietary Limited ("Swiftnet"). Trudon provides

SNM

several directory service offerings off both physical and electronic platforms and Swiftnet provides a suite of services including traditional connectivity services for point-of sale, managed SIM (Subscriber Identity Module) services and customised wireless and wired VPN (Virtual Private Network Services).

Telkom is listed on the JSE and had a market capitalisation of approximately R17.5 billion as at 31 March 2014. Approximately 76.97% of Telkom's shareholders are located in South Africa and 12.38% of Telkom's shareholders are located in the United States.

4. RATIONALE FOR THE PROPOSED TRANSACTION

- 4.1. Since April 2013, Telkom has embarked on a strategy to improve performance and one of the key considerations in respect of this strategy is to grow beyond its core business of connectivity by expanding into ICT services.
- 4.2. BCX is a leading player in the South African ICT services market with strong capabilities in managed IT Infrastructure, including data centres and application development and the Proposed Transaction will enable Telkom to expand its existing offerings whilst, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance Telkom's convergence strategy.
- 4.3. The Proposed Transaction will address the technology and telecommunications needs of South African companies, both within their domestic markets and as they expand into other Africa countries and beyond the continent.
- 4.4. As major global technological changes are driving convergence of the information technology and telecommunications industries, the Proposed Transaction will advance the convergence strategies of both Telkom and BCX.
- 4.5. Telkom has a strong commitment to social development and ongoing transformation goals, including Broad-Based Black Economic Empowerment and the ICT Charter and also supports the South African Government's objectives and policies regarding transformation in the ICT sector.
- 4.6. Telkom's offer is fully-funded and further due diligence procedures are not required.
- 4.7. The Proposed Transaction will enable shareholders of BCX to dispose of their shares at a premium to their recent historical traded market price.

Handwritten initials and signature: "A" and "SNM" with a signature mark.

5. MATERIAL TERMS OF THE PROPOSED TRANSACTION

5.1. Transaction mechanism

- 5.1.1. Telkom intends to acquire the Ordinary Scheme Shares and A Scheme Shares by way of schemes of arrangement ("Ordinary Scheme", "A Scheme" and collectively "Schemes") in terms of section 114 of the Companies Act 71 of 2008, as amended, ("Companies Act") to be proposed by the BCX board of directors ("BCX Board") between BCX and the holders of Ordinary Scheme Shares ("Ordinary Shareholders") and A Scheme Shares ("A Shareholders") (collectively referred to as "Shareholders").
- 5.1.2. The purchase price payable for the Ordinary Scheme Shares and A Scheme Shares, and the terms of payment, will be as set out in paragraph 5.2 and 5.3 below.
- 5.1.3. The Schemes will be subject to the fulfillment of the conditions precedent referred to in paragraphs 6 and 7 below.
- 5.1.4. In the event that the Schemes are successfully implemented, BCX will become a wholly-owned subsidiary of Telkom and the listing on the Ordinary Shares on the JSE will be terminated.
- 5.1.5. Although the A Scheme will be proposed by the BCX Board, it is intended that the BCX Board will exercise the affected transaction call option that BCX has in respect of the A Shares in terms of BCX's memorandum of incorporation as amended from time to time ("MOI"), whereby BCX will repurchase the A Shares from A Shareholders at the purchase consideration as detailed in paragraph 5.3 below ("Affected Transaction Call Option").

5.2. Purchase consideration for Ordinary Shareholders

- 5.2.1. In terms of the Ordinary Scheme, Telkom will pay to the Ordinary Shareholders a cash consideration of R6.60 per Ordinary Scheme Share ("Ordinary Scheme Consideration").

SM

The table below illustrates the Ordinary Scheme Consideration premium:

	Prior to the Cautionary Announcement (15 April 2014) (R)	Premium (%)
Market price	5.50 ¹	20.00%
30-day VWAP	5.58 ²	18.28%
60-day VWAP	5.38 ³	22.68%
90-day VWAP	5.39 ⁴	22.45%

Notes:

1. Closing price of BCX shares on the JSE on 14 April 2014, being the last trading day prior to the publication of the Cautionary Announcement.
2. VWAP at which BCX shares traded on the JSE for the 30 trading days up to and including 14 April 2014, being the last trading day prior to the publication of the Cautionary Announcement.
3. VWAP at which BCX shares traded on the JSE for the 60 trading days up to and including 14 April, being the last trading day prior to the publication of the Cautionary Announcement.
4. VWAP at which BCX shares traded on the JSE for the 90 trading days up to and including 14 April 2014, being the last trading day prior to the publication of the Cautionary Announcement.

5.3. Purchase consideration for A Shareholders

5.3.1. If (i) A Scheme is proposed or (ii) the Affected Transaction Call Option is exercised, A Shareholders will receive a cash consideration of R6.60 per A Scheme Share held less any notional outstanding amount due in respect of the A Shares as determined in terms of the MOI ("Notional Outstanding") ("A Scheme Consideration").

5.3.2. The table in paragraph 5.2.1 also applies to the A Scheme Consideration, prior to adjustment for the Notional Outstanding.

6. CONDITIONS TO THE POSTING OF THE CIRCULAR

The posting of the circular to Shareholders in respect of the Schemes ("Circular") is subject to the fulfilment or waiver of, *inter alia*, the following conditions precedent:

- 6.1. by not later than 09h00 on 22 May 2014, Absa Bank Limited has provided the necessary escrow confirmation which satisfies the requirements of the Takeover Regulations prescribed by the Minister of Trade and Industry in terms of section 120 of

Handwritten initials and signature: *SNM*

Companies Act ("Takeover Regulations") to the Takeover Regulation Panel established in accordance with section 196 of the Companies Act ("Takeover Regulation Panel") to satisfy the payment of the Scheme Considerations, as required in terms of the Takeover Regulations;

- 6.2. by not later than 23h59 on 22 May 2014, BDO Corporate Finance Proprietary Limited ("Independent Expert"), appointed by the independent board of BCX as constituted in terms of Regulation 108 of the Takeover Regulations ("Independent Board"), has delivered the independent expert report required in terms of section 114 of the Companies Act and the Takeover Regulations ("Independent Expert Report");
- 6.3. by not later than 23h59 on the 22 May 2014, the Independent Board has made, in writing, an unqualified and unconditional recommendation that the Shareholders vote in favour of the Schemes;
- 6.4. by not later than 23h59 on the date which is 2 days prior to the date for posting of the Circular in terms of Regulation 102(2) of the Takeover Regulations, the terms of the New Forfeitable Share Plan have been agreed, in writing, between Telkom and the proposed participants in the New Forfeitable Share Plan;
- 6.5. by not later than 23h59 on the date which is 2 days prior to the date for posting of the Circular in terms of Regulation 102(2) of the Takeover Regulations, each of the holders of options to subscribe for Ordinary Shares in terms of the BCX (2009) Executive Share Option Scheme have either (i) waived, in writing, their rights to receive such options in exchange for a cash settlement, (ii) exercised their options, or (iii) taken such other action such that no such options are capable of being exercised as at the date of implementation of the Schemes;
- 6.6. by not later than 23h59 on the date which is 2 days prior to the date for posting of the Circular in terms of Regulation 102(2) of the Takeover Regulations, the Takeover Regulation Panel has granted an exemption in terms of section 119(6) of the Companies Act for the establishment of a new forfeitable share plan for certain members of BCX management ("New Forfeitable Share Plan") and the amendment of BCX's existing employee incentive schemes either (i) unconditionally, (ii) subject to the passing of an ordinary resolution of the independent shareholders of BCX and/or (iii) subject to such other conditions or terms as Telkom confirm/s in writing (by not later than the said date and time) to be acceptable to it, acting reasonably;
- 6.7. by not later than 23h59 on the date which is 2 days prior to the date for posting of the Circular in terms of Regulation 102(2) of the Takeover Regulations, any exchange

R SNM

control approval required in terms of the Exchange Control Regulations, has been obtained; and

6.8. by not later than 23h59 on the date which is 2 days prior to the date for posting of the Circular in terms of Regulation 102(2) of the Takeover Regulations, the Circular has been approved by the JSE and the Takeover Regulation Panel.

7. CONDITIONS TO THE SCHEMES

The implementation of the Schemes will be subject to the fulfilment or waiver, as the case may be, of, *inter alia*, the following conditions precedent –

7.1. by not later than 23h59 on 20 June 2014, to the extent required in accordance with the terms of certain material contracts, the written consent has been obtained from the relevant counterparties to such contracts in respect of the change of control and/or black economic empowerment status of BCX that will result of the implementation of the Proposed Transaction;

7.2. by not later than 23h59 on 20 June 2014, the Parties have submitted a merger notice to the requisite competition authorities;

7.3. by not later than 23h59 on the 40th day after the date of posting of the Circular, in respect of the A Scheme –

7.3.1. a special resolution has been passed by the requisite majority of A Shareholders entitled to vote on the A Scheme, approving the A Scheme in terms of section 115(2)(a) of the Companies Act ("A Scheme Special Resolution"), and

- to the extent required in terms of section 115(3) of the Companies Act, the implementation of such A Scheme Special Resolution is approved by the relevant court, and
- if applicable, BCX has not elected to treat the A Scheme Special Resolution as a nullity in terms of section 115(5)(b) of the Companies Act; and

7.3.2. if the A Scheme Special Resolution has been passed by the requisite majority of A Shareholders entitled to vote on the A Scheme and any person who voted against the A Scheme Special Resolution applies to court within 10 (ten) business days after the vote for a review of the Proposed Transaction in accordance with the requirements of section 115(3)(b) of the Companies Act,

RA
SNM

- no leave is granted by the court to such person to apply to court for a review of the Proposed Transaction in accordance with the requirements of section 115(7) of the Companies Act, or
- if leave is granted by the court to apply to court for a review of the Proposed Transaction in accordance with the requirements of section 115(6) of the Companies Act, the court has not set aside the A Scheme Special Resolution in terms of section 115(7) of the Companies Act;

7.4. by not later than 23h59 on the 40th day after the date of posting of the Circular, in respect of the Ordinary Scheme -

7.4.1. a special resolution has been passed by the requisite majority of Ordinary Shareholders entitled to vote on the Ordinary Scheme, approving the Ordinary Scheme in terms of section 115(2)(a) of the Companies Act ("Ordinary Scheme Special Resolution"); and

- to the extent required in terms of section 115(3) of the Companies Act, the implementation of such Ordinary Scheme Special Resolution is approved by the relevant court; and
- if applicable, BCX has not elected to treat the Ordinary Scheme Special Resolution as a nullity in terms of section 115(5)(b) of the Companies Act; and

7.4.2. if the Ordinary Scheme Special Resolution has been passed by the requisite majority of Ordinary Shareholders entitled to vote on the Ordinary Scheme and any person who voted against the Ordinary Scheme Special Resolution applies to court within 10 (ten) business days after the vote for a review of the Proposed Transaction in accordance with the requirements of section 115(3)(b) of the Companies Act,

- no leave is granted by the court to such person to apply to court for a review of the Proposed Transaction in accordance with the requirements of section 115(7) of the Companies Act, or
- if leave is granted by the court to apply to court for a review of the Proposed Transaction in accordance with the requirements of section 115(6) of the Companies Act, the court has not set aside the Ordinary Scheme Special Resolution in terms of section 115(7) of the Companies Act.

7.5. within the time period prescribed in section 164(7) of the Companies Act, Shareholders have not exercised appraisal rights, by giving valid demands in accordance with the requirements of sections 164(5) to 164(8) of the Companies Act, in respect of more than 5% (five percent) of all the Scheme Shares;

AD
SVM


- 7.6. by not later than 23h59 on the 40th day after the date of posting of the Circular, resolutions in respect of, *inter alia*, the approval of (i) the Affected Transaction Call Option, (ii) the New Forfeitable Share Plan and (iii) the amendments to BCX's existing employee share incentive schemes have been passed by the requisite majority of Shareholders entitled to vote on such resolutions;
- 7.7. by not later than 23h59 on 8 December 2014, the Proposed Transaction has been approved by the requisite competition authorities;
- 7.8. by not later than 23h59 on 8 December 2014, to the extent necessary, any confirmation or approval in writing which might be required in terms of the Electronic Communications Act from the Independent Communications Authority of South Africa has been obtained or confirmed or approved; and
- 7.9. by not later than 23h59 on the 3rd business day following the day on which the last of the conditions precedent in this paragraph 7. (excluding this paragraph) is fulfilled or waived, as the case may be, the Takeover Regulation Panel has issued a compliance certificate in respect of the Proposed Transaction.

8. TELKOM BREAK FEE

- 8.1. In terms of the Implementation Agreement, Telkom has undertaken to pay BCX a break fee equal to 1% of the aggregate of the Ordinary Scheme Consideration and the A Scheme Consideration ("Scheme Consideration") if any of the following events occur:
- 8.1.1. the condition contained in paragraph 7.2 is not fulfilled by the date required for fulfillment thereof as a result of the failure by Telkom to comply with its obligations in terms of the Implementation Agreement in respect of the merger notice; and/or
- 8.1.2. Telkom breaches any of the material provisions or material undertakings of the Implementation Agreement and, if capable of remedy, has failed to remedy such breach within 5 business days of written notice (whether or not BCX cancels the Implementation Agreement as a result of such breach),

provided that no Telkom Break Fee shall be payable by Telkom where:

- 8.1.3. BCX or the BCX Board formally approves or recommends and/or enters into an agreement to effect a superior proposal;
- 8.1.4. the Schemes fail as a result of either of the conditions contained in clauses 7.3 or 7.4 or 7.6 not being fulfilled by the date required for fulfillment thereof;


AJ SUM

8.1.5. BCX breaches any material provision or material undertaking of the Implementation Agreement and, has failed to remedy such breach within 5 business days of written notice; or

8.1.6. an alternative proposal is announced and the transaction contemplated in that alternative proposal is completed.

9. BCX BREAK FEE

9.1. In terms of the Implementation Agreement, BCX has undertaken to pay Telkom a break fee equal to 1% of the Scheme Consideration if any of the following events occur:

9.1.1. the Independent Board withdraws its recommendation that the Shareholders vote in favour of the Schemes and the conditions contained in paragraph 7.3 and 7.4 are not fulfilled, save where such withdrawal is as a result of -

- BCX accepting an alternative superior proposal by entering into an alternative proposal agreement which becomes unconditional, and
- the Independent Expert notifying the Independent Board, in writing, that it has made an error in the Independent Expert Report which error justifies the withdrawal of the Independent Board's recommendation;

9.1.2. BCX elects to implement an alternative proposal in circumstances where Telkom has exercised its right to match and -

- the revised offer by Telkom would, if completed substantially in accordance with its terms, result in Shareholders receiving a Scheme Consideration which is equal to or more favourable to Shareholders than the consideration offered in the alternative proposal, and
- BCG has nevertheless elected to implement the alternative proposal because the terms and conditions of the alternative proposal as a whole result in it being a superior proposal, notwithstanding that the revised offer by Telkom would, if completed substantially in accordance with its terms, result in Shareholders receiving a Scheme Consideration equal to or more favourable to Shareholders than the Scheme Consideration offered in the alternative proposal; and/or

9.1.3. BCX breaches any material provision or material undertaking of the Implementation Agreement and, if capable of remedy, fails to remedy that breach within 5 business days of written notice (whether or not Telkom cancels the Implementation Agreement as a result of such breach).

10. TREATMENT OF BCX's EXISTING SHARE INCENTIVE SCHEMES

SUM
A

It is proposed that, subject to the Proposed Transaction being implemented:

- 10.1. the holders of options under the BCX (2009) Executive Share Option Plan established and approved by the Shareholders on 12 May 2009, will be entitled to exercise all of their options or to waive their rights to their options in exchanged for a cash settlement;
- 10.2. all of the forfeitable shares under the BCX Forfeitable Share Plan ("FSP") established and approved by the Shareholders on 16 January 2014 which have been allocated will vest prior to the meeting to be held to approve the Ordinary Scheme; and
- 10.3. all of the conditional rights to receive Ordinary Shares under the BCX Share Appreciation Plan established and approved by the Shareholders on 16 January 2014 which have been awarded will vest prior to the meeting to be held to approve the Ordinary Scheme.

11. FUNDING OF THE PROPOSED TRANSACTION

Telkom will fund the Scheme Consideration from its own cash resources. The Takeover Regulation Panel has been provided with an escrow confirmation from Absa Bank Limited in compliance with Takeover Regulations.

12. INTERESTS OF TELKOM AND ITS RESPECTIVE DIRECTORS' INTERESTS IN BCX SECURITIES

As at the date of release of this announcement, neither Telkom nor any of its directors declared any direct or indirect beneficial interests in BCX. The directors of Telkom have not had any dealings in BCX shares during the period beginning six months before the date of release of this announcement and ending on the date of release of this announcement.

13. INDEPENDENT BOARD AND FAIR AND REASONABLE OPINION

The Proposed Transaction is classified as an affected transaction in terms of the Companies Act. Accordingly, BCX has convened its Independent Board, comprised of AB Darko, JA Bester and M Leföbye, to consider the terms of the Proposed Transaction and the Independent Expert's Report.

Whilst the contents of the Independent Expert's Report and the confirmed views of the Independent Board will be detailed in the Circular, the Independent Board, together with the Independent Expert, have formed a view that the terms of the Proposed Transaction are fair and reasonable to Shareholders and the Independent Board recommends that Shareholders vote in favour of the Proposed Transaction.

AA
SNM

14. POSTING OF CIRCULAR

It is estimated that the Circular will be posted to Shareholders on or about 17 June 2014. The Circular will include the notice of the meetings to approve the Schemes to be held on or about 16 July 2014 for the purpose of considering and, if deemed fit, passing the special resolutions required to approve the Schemes. A further announcement setting out the salient dates and times in relation to the Circular and the meetings will be released in due course.

15. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Following the release of this announcement, the Cautionary Announcement is hereby withdrawn and caution is no longer required to be exercised by Shareholders when dealing in their BCX Shares.

16. TELKOM BOARD RESPONSIBILITY STATEMENT

Telkom's board of directors (to the extent that the information relates to Telkom) collectively and individually accept responsibility for the information contained in this announcement and certify that, to the best of their knowledge and belief, the information contained in this announcement relating to Telkom is true and this announcement does not omit anything that is likely to affect the importance of such information.

17. BCX BOARD RESPONSIBILITY STATEMENT

The BCX Board (to the extent that the information relates to BCX) collectively and individually accept responsibility for the information contained in this announcement and certify that, to the best of their knowledge and belief, the information contained in this announcement relating to BCX is true and this announcement does not omit anything that is likely to affect the importance of such information.

Midrand

22 May 2014

Investment bank and corporate advisor to BCX: Investec Bank Limited

Transaction sponsor to BCX: Investec Bank Limited

Investment bank and corporate advisor to Telkom: Absa Bank Limited

Transaction sponsor to Telkom: Absa Bank Limited

Legal advisor to BCX and Telkom: Edward Nathan Sonnenbergs Incorporated

Independent Expert to BCX: BDO Corporate Finance Proprietary Limited