

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF
THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring the shell company report
Commission file number: 001-31609

TELKOM SA LIMITED

(Exact name of Registrant as specified in its charter)

THE REPUBLIC OF SOUTH AFRICA

(Jurisdiction of incorporation or organization)

Telkom Towers North

152 Proes Street

Pretoria 0002

The Republic of South Africa

(27)(12)311-3566

(Address of principal executive offices)

Company Secretary: Sandi Linford (27)(12)311 7743; (27)(12)311 4777, Private Bag X881, Pretoria 0001

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Title of each class Securities registered or to be registered pursuant to section 12(b) of the Act. **Name of each exchange on which registered**
American Depositary Shares, each representing four (4) New York Stock Exchange, Inc.
Ordinary Shares, par value R10 per share
Ordinary Shares, par value R10 per share New York Stock Exchange, Inc.*

*Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, par value R10 per share	499,441,985
Class A Ordinary Share, par value R10 per share	1
Class B Ordinary Share, par value R10 per share	1

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[x] Yes [] No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

[] Yes [x] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[x] Yes [] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [x] Accelerated filer [] Non-accelerated filer []

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP [] International Financing Standards as issued Other []

by the International Accounting Standards Board [x]

If "other" has been checked in response to this previous question indicate by check mark which financial statement item the registrant has elected to follow.

[] Item 17 [] Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[] Yes [x] No

Unless the context requires otherwise, references to “we”, “us”, “our” and the “Telkom Group” in this annual report refer to Telkom SA Limited and its subsidiaries and its 50% interest in Vodacom, and references to “Telkom” in this annual report refer only to Telkom SA Limited. References to “Vodacom” in this annual report refer to Telkom’s 50% owned joint venture, Vodacom Group (Pty) Limited, and its subsidiaries. We do not control Vodacom, the management of which requires consensus agreement among its shareholders who are party to Vodacom’s joint venture agreement.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Many of the statements included in this annual report, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, including, among others, statements regarding our mobile 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. Among the factors that could cause our actual results or outcomes to differ materially from our expectations are those risks identified in Item 3. “Key Information – Risk Factors”, including, but not limited to, any changes to our mobile strategy and Vodacom holdings and our ability to successfully implement such strategy and organizational changes thereto, increased competition in the South African fixed-line, mobile and data communications markets; our ability to implement our strategy of transforming from basic voice and data connectivity to fully converged solutions, developments in the regulatory environment; continued mobile growth and reductions in Vodacom’s and Telkom’s net interconnect margins; Telkom’s and Vodacom’s ability to expand their operations and make investments and acquisitions in other African countries and the general economic, political, social and legal conditions in South Africa and in other countries where Telkom and Vodacom invest; our ability to improve and maintain our management information and other systems; our ability to attract and retain key personnel and partners; our inability to appoint a majority of Vodacom’s directors and the consensus approval rights at Vodacom may limit our flexibility and ability to implement our preferred strategies; Vodacom’s continued payment of dividends or distributions to us; our negative working capital; changes in technology and delays in the implementation of new technologies; our ability to reduce theft, vandalism, network and payphone fraud and lost revenue to non-licensed operators; the amount of damages Telkom is ultimately required to pay to Telcordia Technologies Incorporated; the outcome of regulatory, legal and arbitration proceedings, including tariff approvals, and the outcome of Telkom’s hearings before the Competition Commission and others; any requirements that we unbundle the local loop, our ability to negotiate favorable terms, rates and conditions for the provision of interconnection services and facilities leasing services or if ICASA finds that we or Vodacom have significant market power or otherwise imposes unfavorable terms and conditions on us; our ability to implement and recover the substantial capital and operational costs associated with carrier pre-selection, number portability and the monitoring, interception and customer registration requirements contained in the South African Regulation of Interception of Communications and Provisions of Communication-Related Information Act and the impact of these requirements on our business;

Telkom's ability to comply with the South African Public Finance Management Act and South African Public Audit Act and the impact of the Municipal Property Rates Act; fluctuations in the value of the Rand and inflation rates; the impact of unemployment, poverty, crime, HIV infection, labor laws and labor relations, exchange control restrictions and power outages in South Africa; and other matters not yet known to us or not currently considered material by us.

We caution you not to place undue reliance on these forward looking statements. All written and oral 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 annual report, either to conform them to actual results or to changes in our expectations.

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PART I

Item 1. Identity of directors, senior management and advisors

Not applicable.

Item 2. Offer statistics and expected timetable

Not applicable.

Item 3. Key information

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA OF THE TELKOM GROUP

The following table sets forth selected historical consolidated financial and other data of the Telkom Group as of and for each of the periods set forth therein. Information in the following table includes our 50% interest in the results, assets, liabilities and equity of Vodacom, which we proportionately consolidate. Unless otherwise indicated, fixed-line statistical data is derived from the results of operations of our fixed-line segment, which provides fixed-line voice and data communications services through Telkom. Telkom's mobile segment provides mobile services through its 50% joint venture interest in Vodacom. Telkom's other segment provides directory services, through our 64.9% owned subsidiary, TDS Directory Operations, fixed, mobile, long distance and international communications services throughout Nigeria, through our 75% owned subsidiary, Multi-Links, internet services outside South Africa through our wholly owned subsidiary, Africa Online, and wireless data services through our wholly owned subsidiary, Swiftnet, and also includes Telkom Media.

The following selected historical consolidated financial data of the Telkom Group as of and for each of the three years ended March 31, 2008 was derived from the Telkom Group's consolidated financial statements included in this annual report, which have been audited by Ernst & Young Inc., Registered Auditors, Chartered Accountants (SA). The following selected historical consolidated financial data of the Telkom Group as of and for each of the two years ended March 31, 2005 and 2004 was derived from the Telkom Group's consolidated financial statements not included in this annual report, which have also been audited by Ernst & Young Inc., Registered Auditors, Chartered Accountants (SA).

The consolidated financial statements of the Telkom Group have been prepared in accordance with International Financial Reporting Standards, or IFRS, which differs in certain respects from U.S. Generally Accepted Accounting Principles, or U.S. GAAP. As permitted by Release Number 33-8879 issued by the U.S. Securities and Exchange Commission, or SEC, and the rules promulgated pursuant thereto, the Telkom Group's consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board, or IASB, and accordingly, the Telkom Group has not included in this Annual Report on Form 20-F, a reconciliation of its consolidated financial statement from IFRS to U.S. GAAP.

EBITDA represents net profit for the year, which includes profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortization, impairment and write-offs. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant tax regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. EBITDA is not a U.S. GAAP or IFRS measure. You should not construe EBITDA

as an alternative to operating profit or cash flows from operating activities determined in accordance with U.S. GAAP or IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. In addition, the calculation of EBITDA for the maintenance of our covenants contained in our TL20 bond is based on accounting policies in use, consistently applied, at the time the indebtedness was incurred. As a result, EBITDA for purposes of those covenants is not calculated in the same manner as it is calculated in the table below.

Fixed access lines are comprised of public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, prepaid lines, ADSL lines and public and private payphones, but excluding internal lines in service. We calculate fixed-line penetration, or teledensity, based on the total number of telephone lines in service at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid year in the periods indicated as published by Statistics South Africa, a South African governmental department. We calculate fixed-line traffic, other than international outgoing mobile traffic, international interconnection traffic and international voice over internet protocol traffic, by dividing traffic operating revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices. International voice over internet protocol traffic is based on the traffic reflected in invoices. We calculate revenue per fixed access line by dividing total fixed-line revenue during the period by the average number of fixed access lines in service during the period. We calculate our number of fixed-lines per fixed-line employee on the basis of fixed access lines in service at period end divided by the number of employees of Telkom at period end.

Rand amounts as of and for the year ended March 31, 2008 have been translated into U.S. Dollars solely for your convenience at R8.14 per U.S.\$1.00, the Rand noon buying rate discussed in Item 3. "Key Information – Exchange Rates" on March 31, 2008, the date of the Telkom Group's most recent consolidated balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into U.S. Dollars at these rates or at all.

You should read the following information together with Item 3. "Key Information – Risk Factors", Item 5. "Operating and Financial Review and Prospects" and the consolidated financial statements and the notes thereto of the Telkom Group and Vodacom Group included in this annual report.

THE TELKOM GROUP

	2004	2005	2006	2007	2008	2008
	ZAR	ZAR	ZAR	ZAR	ZAR	U.S.D
	Year ended March 31,					
	(in millions, except per share amounts)					
Income Statement Data						
<i>Amounts in accordance with IFRS</i>						
Operating revenue	40,582	43,160	47,625	51,619	56,285	6,915
Other income ⁽¹⁾	255	280	480	384	534	66
Operating expenses	(31,499)	(32,179)	(33,428)	(37,533)	(42,337)	(5,201)
Employee expenses ⁽²⁾	(7,408)	(8,111)	(7,489)	(8,454)	(9,220)	(1,133)
Payments to other operators	(5,985)	(6,132)	(6,826)	(7,590)	(9,169)	(1,126)
Selling, general and administrative ⁽³⁾ ..	(7,665)	(8,824)	(10,273)	(12,902)	(14,409)	(1,770)
Services rendered	(2,269)	(2,021)	(2,114)	(2,291)	(2,571)	(316)
Operating leases	(924)	(803)	(850)	(981)	(838)	(103)
Depreciation, amortization, impairments and write-offs ⁽⁴⁾	(7,248)	(6,288)	(5,876)	(5,315)	(6,130)	(753)
Operating profit	9,338	11,261	14,677	14,470	14,482	1,780
Investment income	322	350	397	235	197	24
Finance charges ⁽³⁾	(3,264)	(1,694)	(1,223)	(1,125)	(1,803)	(221)
Profit before tax	6,396	9,917	13,851	13,580	12,876	1,583
Taxation	(1,738)	(3,082)	(4,523)	(4,731)	(4,704)	(578)
Profit for the year	4,658	6,835	9,328	8,849	8,172	1,005
Attributable to:						
Equity holders of Telkom	4,589	6,752	9,189	8,646	7,975	981
Minority interest	69	83	139	203	197	24
Weighted average number of ordinary shares outstanding						
Basic	557	541	526	514	510	510
Diluted	557	543	529	516	516	516
Earnings per share (cents)						
Basic	823.9	1,246.9	1,746.1	1,681.0	1,565.0	192.3
Diluted	823.9	1,244.5	1,736.6	1,676.3	1,546.9	190.0
Dividends per share (cents) ⁽⁵⁾	90.0	110.0	900.0	900.0	1,100.0	135.1

Notes:

- (1) Other income includes profit and losses on disposal of investments, property, plant and equipment and intangible assets.
- (2) Employee expenses include workforce reduction expenses of R3 million, R24 million, R88 million, R961 million and R302 million in the years ended March 31, 2008, 2007, 2006, 2005 and 2004, respectively.
- (3) In the year ended March 31, 2003, we recorded a R117 million gain related to the R325 million provision for potential liabilities related to Telkom's arbitration with Telcordia in terms of IAS21 and IAS39 in finance charges as a result of the strengthening of the Rand. In addition, we included a provision for interest of R40 million related to Telcordia in finance charges in the year ended March 31, 2003 and a provision for legal fees of R58 million related to Telcordia is included in services rendered in the year ended March 31, 2003. In the year ended March 31, 2004, all of these provisions were reversed due to a court ruling at that time. In the year ended March 31, 2007 we recorded a provision of R527 million for

probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges. In the year ended March 31, 2008 we increased the provision to R569 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R53 million and foreign exchange rate effect of R52 million which are included in finance charges, partially offset by a provisional payment made in respect of specific sub-claims within the Telcordia claim.

- (4) Depreciation, amortization, impairments and write-offs include costs in respect of write-offs of R285 million (including a R217 million impairment relating to Telkom Media in the 2008 financial year), R284 million, R188 million, R210 million and R201 million in the 2008, 2007, 2006, 2005 and 2004 financial years, respectively.
- (5) Dividends per share represents dividends paid in the applicable year in respect of the prior year's earnings and results.

			As of March 31,			
	2004	2005	2006	2007	2008	2008
	ZAR	ZAR	ZAR	ZAR	ZAR	U.S.D
	(in millions)					

Balance Sheet Data

Amounts in accordance with IFRS

Total assets	53,174	57,597	57,544	59,146	70,372	8,645
Current assets	11,423	15,045	12,731	10,376	12,609	1,549
Cash and cash equivalents	3,218	3,210	4,948	749	1,134	139
Other current assets	8,205	11,835	7,783	9,627	11,475	1,410
Non-current assets	41,751	42,552	44,813	48,770	57,763	7,096
Total liabilities ⁽⁶⁾	31,346	31,236	28,078	27,138	37,035	4,550
Current liabilities ⁽⁷⁾	14,639	17,366	15,687	18,584	21,931	2,694
Short-term debt ⁽⁶⁾⁽⁷⁾	4,473	5,408	4,161	6,467	7,672	943
Other current liabilities	10,166	11,958	11,526	12,117	14,259	1,751
Non-current liabilities ⁽⁸⁾	16,707	13,870	12,391	8,554	15,104	1,856
Long-term debt ⁽⁶⁾⁽⁸⁾	12,703	9,504	7,655	4,338	9,403	1,155
Other non-current liabilities	4,004	4,366	4,736	4,216	5,701	701
Total equity ⁽⁹⁾	21,828	26,361	29,466	32,008	33,337	4,095
Attributable to:						
Equity holders of Telkom	21,628	26,141	29,165	31,724	32,815	4,031
Minority interest	200	220	301	284	522	64

Notes:

- (6) As of March 31, 2008, R141 million of our debt was guaranteed by the Government of the Republic of South Africa.
- (7) Includes short-term portion of finance leases, funding loans and interest bearing and non-interest bearing debt, as well as utilized credit facilities.
- (8) Includes long-term portion of finance leases, funding loans and interest bearing and non-interest bearing debt.
- (9) Includes share capital and share premium of R5,208 million, R5,329 million, R6,791 million, R8,293 million and R8,293 million in the 2008, 2007, 2006, 2005 and 2004 financial years, respectively.

	Year ended March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>

(in millions)

Cash Flow Data

Amounts in accordance with IFRS

Cash flows from operating activities	13,884	15,711	9,506	9,356	10,603	1,303
Cash flows from investing activities	(5,423)	(6,306)	(7,286)	(10,412)	(14,106)	(1,733)
Cash flows from financing activities	(6,481)	(9,897)	(258)	(2,920)	2,943	362

Other Data

Amounts in accordance with IFRS

EBITDA ⁽¹⁰⁾	16,586	17,549	20,553	19,785	20,612	2,533
Total debt (at period end) ⁽⁶⁾⁽¹¹⁾	17,176	14,912	11,816	10,805	17,075	2,098
Capital expenditures excluding intangible assets	4,936	4,464	6,310	8,648	10,108	1,242
Capital expenditures including intangible assets	5,368	5,851	7,506	10,246	11,900	1,462

Notes:

(10) EBITDA can be reconciled to profit for the year as follows:

	Year ended March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>
(in millions)						
EBITDA	16,586	17,549	20,553	19,785	20,612	2,533
Depreciation, amortization, impairments and write-offs	(7,248)	(6,288)	(5,876)	(5,315)	(6,130)	(753)
Investment income	322	350	397	235	197	24
Finance charges	(3,264)	(1,694)	(1,223)	(1,125)	(1,803)	(221)
Taxation	(1,738)	(3,082)	(4,523)	(4,731)	(4,704)	(578)
Profit for the year	4,658	6,835	9,328	8,849	8,172	1,005

(11) Includes short-term and long-term finance leases, funding loans and interest bearing and non-interest bearing debt, as well as utilized credit facilities.

		Year ended March 31,				
		2004	2005	2006	2007	2008
Fixed-Line Statistical Data						
Fixed access lines (thousands) (at year end)	(12)	4,680	4,726	4,708	4,642	4,532
Postpaid						
PSTN (13)		3,048	3,006	2,996	2,971	2,893
ISDN channels		601	664	693	718	754
Prepaid		856	887	854	795	743
Payphones (14)		175	169	165	158	143
Fixed-line penetration rate (%) (at year end)	(12)	10.1	10.1	10.0	9.8	9.5
Revenue per fixed access line (ZAR)	(12)	5,341	5,250	5,304	5,275	5,250
Total fixed-line traffic (millions of minutes)	(15)	32,942	31,706	31,015	29,323	26,926
Local		20,547	19,314	18,253	14,764	11,317
Long distance		4,616	4,453	4,446	4,224	3,870
Fixed-to-mobile		3,980	3,911	4,064	4,103	4,169
International outgoing		427	415	515	558	635
International voice over internet protocol		25	89	83	38	43
Interconnection		3,347	3,524	3,654	3,740	3,895
Subscription based calling plans		—	—	—	1,896	2,997
Data Communications Services						
(at year end)						
Managed network sites		9,061	11,961	16,887	21,879	25,112
Internet dial-up subscribers		142,208	202,410	228,930	210,453	242,732
Internet ADSL subscribers		8,559	22,870	53,997	92,140	115,334
Total ADSL subscribers (16)		20,145	58,278	143,509	255,633	412,190
Number of full-time, Telkom employees						
(at year end) (17)		32,358	28,972	25,575	25,864	24,879
Fixed-lines per Telkom employee						
(at year end) (12)(17)		145	163	184	180	182

Notes:

(12) Fixed access lines are comprised of PSTN lines, including ISDN lines and payphones, but excluding Telkom internal lines in service. Each analog PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.

(13) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fiber.

(14) Includes public and private payphones.

(15) Traffic includes dial up internet traffic. Telkom has reclassified calling plans from local, long distance and fixed-to-mobile traffic into a separate line item to disclose traffic from subscription based calling plans in the 2007 and 2008 financial year. Traffic for the 2006 financial year was not restated. Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value added services and free or discounted rates on calls. Traffic revenue from calling plan subscriptions was reported as part local traffic revenue in financial years prior to the 2007 financial year, as most of these calling plans related to local calls only and the amounts were insignificant. The access line rentals and value added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Commencing in the 2007 financial year, subscription based calling plans revenue includes traffic annuity revenue related to calling plans. Commencing in the 2007 financial year, discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

(16) Excludes Telkom internal ADSL services of 751, 523, 249, 254 and 168 as of March 31, 2008, 2007, 2006, 2005 and 2004, respectively.

(17) Includes employees of Telkom only.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA OF VODACOM GROUP

The following table sets forth selected consolidated financial and other data of Vodacom as of and for each of the periods set forth therein. Information in the Vodacom table reflects 100% of Vodacom's results of operations. Unless otherwise indicated, information with respect to Vodacom's other African operations in the Vodacom table reflects 100% of the operations of Vodacom's subsidiaries in Lesotho, Tanzania and Mozambique. Vodacom Congo was fully consolidated as a subsidiary in Vodacom's consolidated financial statements effective April 1, 2004 after certain clauses granting the outside shareholders participating rights had been removed from the Vodacom Congo shareholders agreement. As a result, unless otherwise indicated, information with respect to Vodacom Congo in the table reflects Vodacom's 51% interest in Vodacom Congo that was proportionately consolidated in Vodacom's consolidated financial statements in the year ended March 31, 2004 and 100% of Vodacom Congo in the years ended March 31, 2008, 2007, 2006 and 2005. We proportionately consolidate our 50% interest in Vodacom in the Telkom Group's consolidated financial statements. Vodacom's other operating income, direct network operating costs, depreciation, staff expenses, marketing and advertising expenses, other operating expenses, amortization of intangible assets and impairment of assets are presented as separate line items in Vodacom's consolidated financial statements, but have been combined under the heading "operating expenses" in the table set forth below.

The following selected historical consolidated financial data of Vodacom as of and for each of the three years ended March 31, 2008 have been derived from Vodacom's consolidated financial statements included in this annual report, which were audited by Deloitte & Touche, Registered Auditors, Chartered Accountants (SA). The following selected historical consolidated financial data of Vodacom as of and for each of the two years ended March 31, 2005 and 2004 was derived from Vodacom's consolidated financial statements not included in this annual report, which were also audited by Deloitte & Touche, Registered Auditors, Chartered Accountants (SA).

The consolidated financial statements of Vodacom have been prepared in accordance with IFRS, which differs in certain respects from U.S. GAAP. As permitted by Release Number 33-8879 issued by SEC and the rules promulgated pursuant thereto, Vodacom's consolidated financial statements comply with IFRS as issued by IASB, and accordingly, Telkom Group has not included in this Annual Report on Form 20-F, a reconciliation of its consolidated financial statement from IFRS to U.S. GAAP.

EBITDA represents net profit, which includes the profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortization and impairments. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant tax regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. EBITDA is not a U.S. GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with U.S. GAAP or IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same.

Vodacom's customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the year indicated. Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. Vodacom's contract customers are disconnected when they terminate their contract, or their

service is disconnected due to non-payment. Prepaid customers in South Africa were disconnected if they did not recharge their vouchers after being in time window lock for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers in South Africa to align itself with European and industry standards. From December 2003, prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days. Up to June 15, 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. Because a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity and a majority of such messages are never retrieved by the customer, resulting in estimated ARPUs of less than R1 per month, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity effective June 15, 2006. Vodacom deleted approximately 3 million customers during the period of this rule change. As a result of the rule change, prepaid churn rates and ARPUs increased during the 2007 financial year. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards were disconnected from the network after being inactive for a 215 consecutive day period. Since implementing this change, prepaid SIM cards remaining in an active state on the network, with only call forwarding to voicemail and no other revenue generating activities, increased significantly. Vodacom therefore implemented a supplementary disconnection rule in September 2007 to disconnect inactive prepaid SIM cards after 13 months of being kept in an active state, by call forwarding to voicemail only, and not having had any other revenue generating activity on Vodacom's network. The implementation of the supplementary disconnection rule led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007, increasing churn on the prepaid customer base to 47.9% in the 2008 financial year and resulted in higher prepaid ARPU than would have otherwise occurred.

For other African countries, each subsidiary has its own disconnection rule to disconnect inactive prepaid customers. Vodacom Lesotho disconnects its prepaid customers at the expiration of time window lock of 210 days. Vodacom Tanzania, Vodacom Congo and Vodacom Mozambique disconnect their prepaid customers if they record no revenue generating activity within a period of 215 consecutive days.

Vodacom's churn is calculated by dividing the average monthly number of disconnections during the year by the average monthly total reported customer base during the year. Vodacom's South African market share is derived from Vodacom's total customers, and the total estimated mobile customers of MTN, Cell C and Virgin Mobile. Vodacom calculates penetration, or teledensity, based on the total number of customers at the end of the year per 100 persons in the population of South Africa. Population is the estimated South African population at the mid-year in the years indicated as published by Statistics South Africa, a South African governmental department. Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls. Vodacom's average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the year by the average monthly total reported customer base during the year. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks. Vodacom's average monthly minutes of use per customer, or average MOU, is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the year. MOU excludes calls to free services, bundled minutes and data minutes. Cumulative network capital expenditure per customer is the cumulative network capital expenditure since the launch of Vodacom's South African network divided by Vodacom's average customers in South Africa for the year.

Rand amounts as of and for the year ended March 31, 2008 have been translated into Dollars solely for your convenience at R8.14 per U.S.\$1.00, the Rand noon buying rate discussed in Item 3. "Key Information – Exchange Rates," on March 31, 2008, the date of Vodacom's most recent consolidated balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into U.S. dollars at these rates or at all.

You should read the following information together with Item 3. "Key Information – Risk Factors," Item 5. "Operating and Financial Review and Prospects" and the consolidated financial statements and the notes thereto of the Telkom Group and Vodacom Group included in this annual report.

	Year ended March 31,					
	2004	2005	2006	2007	2008	2008
	ZAR	ZAR	ZAR	ZAR	ZAR	U.S.D
	(in millions)					
Income Statement Data						
Amounts in accordance with IFRS						
Revenue	22,855	27,315	34,043	41,146	48,178	5,919
Operating expenses ⁽¹⁾	(17,630)	(20,837)	(25,177)	(30,286)	(35,687)	(4,384)
Operating profit ⁽²⁾	5,225	6,478	8,866	10,860	12,491	1,535
Interest, dividends and other finance income ⁽³⁾	112	117	130	75	72	9
Finance cost ⁽³⁾	(290)	(230)	(246)	(370)	(681)	(84)
Gains/(Losses) on remeasurement and disposal of financial instruments ⁽³⁾	(273)	136	(523)	(169)	185	23
Profit before taxation	4,774	6,501	8,227	10,396	12,067	1,483
Taxation	(1,722)	(2,613)	(3,084)	(3,836)	(4,109)	(505)
Net profit	3,052	3,888	5,143	6,560	7,958	978
Attributable to:						
Equity shareholders	3,026	3,857	5,026	6,342	7,812	960
Minority interest	26	31	117	218	146	18

Notes:

- (1) Includes other income of R156 million, R120 million, R125 million, R64 million and R58 million in the years ended March 31, 2008, 2007, 2006, 2005 and 2004, respectively.
- (2) Operating profit and EBITDA includes an impairment of R268 million in respect of assets in Mozambique in the 2005 financial year, a reversal of the impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets in Mozambique due to exchange rate fluctuations and an impairment loss of R23 million and R30 million in the 2007 and 2008 financial years in respect of the assets in Mozambique due to a decrease in the fair value of the assets.
- (3) During the 2008 financial year, Vodacom reclassified gains/(losses) on remeasurement and disposal of financial instruments from interest, dividends and other finance income and finance costs.

	As of March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>
	(in millions)					
Balance Sheet Data						
<i>Amounts in accordance with IFRS</i>						
Total assets	20,174	22,595	24,768	28,470	34,175	4,199
Current assets	7,323	8,706	8,689	7,626	9,707	1,193
Cash and cash equivalents	2,370	3,990	3,146	771	978	120
Other current assets	4,953	4,716	5,543	6,855	8,729	1,073
Non-current assets	12,851	13,889	16,079	20,844	24,468	3,006
Total liabilities	12,570	14,707	16,096	18,823	22,370	2,748
Current liabilities	10,252	11,474	13,859	15,011	17,582	2,160
Short-term debt ⁽⁴⁾	1,617	2,203	3,036	1,380	3,100	381
Other current liabilities	8,635	9,271	10,823	13,631	14,482	1,779
Non-current liabilities	2,318	3,233	2,237	3,812	4,788	588
Long-term debt ⁽⁵⁾	1,217	2,214	819	2,054	3,032	372
Other non-current liabilities	1,101	1,019	1,418	1,758	1,756	216
Total equity	7,604	7,888	8,672	9,647	11,805	1,451
Attributable to:						
Equity shareholders of Vodacom	7,511	7,759	8,389	9,426	11,401	1,401
Minority interest	93	129	283	221	404	50

Notes:

(4) Includes short-term portion of finance leases, funding loans and interest bearing and non-interest bearing debt, as well as utilized credit facilities.

(5) Includes long-term portion of finance leases, funding loans and interest bearing and non-interest bearing debt.

	Year ended March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>
	(in millions)					
Cash Flow Data						
<i>Amounts in accordance with IFRS</i>						
Cash flows from operating activities	4,790	4,150	4,501	4,858	5,125	630
Cash flows from investing activities	(3,000)	(3,374)	(4,791)	(6,584)	(7,502)	(922)
Cash flows from financing activities	(798)	(195)	(108)	(200)	3,234	397
Other Data						
<i>Amounts in accordance with IFRS</i>						
EBITDA ⁽²⁾⁽⁶⁾	7,757	9,590	11,809	14,244	16,432	2,019
Total debt (at period end) ⁽⁷⁾	2,833	4,417	3,855	3,435	6,132	753
Capital expenditures excluding intangible assets	2,891	3,288	4,699	6,137	4,952	608
South Africa	1,659	2,617	3,977	4,651	3,510	431
Other African countries	1,232	671	722	1,486	1,442	177
Capital expenditures including intangible assets	3,012	3,494	5,142	7,214	6,923	851
South Africa	1,666	2,800	4,400	5,638	5,402	664
Other African countries	1,346	694	742	1,576	1,521	187

Notes:

(6) EBITDA can be reconciled to net profit as follows:

	Year ended March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>
	(in millions)					
EBITDA	7,757	9,590	11,809	14,244	16,432	2,019
Depreciation, amortization and impairments	(2,532)	(3,112)	(2,943)	(3,384)	(3,941)	(484)
Interest, dividends and other financial income	112	117	130	75	72	9
Finance costs	(290)	(230)	(246)	(370)	(681)	(84)
Gains/(Losses) on remeasurement and disposal of financial instruments	(273)	136	(523)	(169)	185	23
Taxation	(1,722)	(2,613)	(3,084)	(3,836)	(4,109)	(505)
Profit for the year	3,052	3,888	5,143	6,560	7,958	978

(7) Includes short-term and long-term finance leases, funding loans and interest bearing and non-interest bearing debt, as well as utilized credit facilities.

	Year ended March 31,				
	2004	2005	2006	2007	2008
Statistical Data					
South Africa					
Total mobile customers (thousands)					
(at year end) ⁽⁸⁾	9,725	12,838	19,162	23,004	24,821
Contract	1,420	1,872	2,362	3,013	3,541
Prepaid	8,282	10,941	16,770	19,896	21,177
Community services telephones	23	25	30	95	103
Total inactive mobile customers (%)					
(at year end) ⁽⁹⁾	n/a	7.9	8.7	10.7	10.3
Contract	n/a	1.5	2.4	3.1	4.0
Prepaid	n/a	9	9.6	11.8	11.4
Gross connections (thousands)	4,998	6,180	9,140	10,859	12,040
Contract ⁽¹⁰⁾	n/a	434	506	666	782
Prepaid ⁽¹⁰⁾	n/a	5,742	8,618	10,124	11,248
Community services	4	4	16	69	10
Churn (%)	36.6	27.1	17.7	33.8	42.3
Contract	10.1	9.1	10.0	9.7	8.3
Prepaid	41.3	30.3	18.8	37.5	47.9
Market share (%) (at year end)	54	56	58	58	55
Penetration (%) (at year end)	39	50	71	84	94
Total mobile traffic (millions of minutes) ⁽¹¹⁾	12,172	14,218	17,066	20,383	22,769
Outgoing	7,647	9,231	11,354	13,638	15,323
Incoming	4,525	4,987	5,712	6,745	7,446
ARPU (ZAR)	177	163	139	125	125
Contract	634	624	572	517	486
Prepaid	90	78	69	63	62
Community services	2,155	2,321	1,796	902	689
Average MOU	96	84	74	69	66
Contract	263	226	206	188	172
Prepaid	56	52	49	47	46
Community services	3,061	3,185	2,327	1,151	883
Capital expenditure per year end customer (ZAR)	1,720	1,515	1,257	1,187	1,239
Number of mobile employees (at year end) ⁽¹²⁾	3,848	3,919	4,305	4,727	4,849
Number of mobile customers per mobile employee					
(at year end) ⁽⁸⁾⁽¹²⁾	2,527	3,276	4,451	4,867	5,119

	Year ended March 31,				
	2004	2005	2006	2007	2008
Other African countries ⁽¹³⁾					
Total mobile customers (thousands)					
(at year end) ⁽⁸⁾	1,492	2,645	4,358	7,146	9,173
Lesotho	80	147	206	279	395
Tanzania	684	1,201	2,091	3,247	4,207
Democratic Republic of the Congo	670	1,032	1,571	2,632	3,289
Mozambique	58	265	490	988	1,282
Churn (%)					
Lesotho	65.1	17.3	22.3	19.0	17.8
Tanzania	30.0	29.6	28.5	35.6	45.5
Democratic Republic of the Congo	20.2	23.1	28.1	30.4	48.0
Mozambique	0.3	11.3	32.2	41.7	58.7
Gross connections (thousands)					
Lesotho	51	70	98	119	176
Tanzania	404	746	1,353	2,092	2,645
Democratic Republic of the Congo	513	565	892	1,688	2,141
Mozambique	58	225	342	797	951
Penetration (%) (at year end) ⁽¹⁴⁾					
Lesotho	5	7	13	17	26
Tanzania	3	5	9	16	20
Democratic Republic of the Congo	2	4	6	9	12
Mozambique	3	4	8	14	16
ARPU (ZAR)					
Lesotho	125	92	78	75	73
Tanzania	128	81	67	52	49
Democratic Republic of the Congo	150	98	86	77	59
Mozambique	110	52	36	28	29
Number of employees (at year end) ⁽¹²⁾					
Lesotho	68	63	67	63	97
Tanzania	316	350	438	527	766
Democratic Republic of the Congo	334	538	479	745	919
Mozambique	43	123	170	187	210
Number of mobile customers per mobile employee					
(at year end) ⁽⁸⁾⁽¹²⁾	1,961	2,463	3,776	4,695	4,605

Notes:

(8) Includes inactive customers.

(9) In the 2005 financial year, a software error was identified in the calculation of inactive customers. Vodacom corrected inactive customers as of March 31, 2005. Information for prior years is unavailable.

(10) Gross connections have been restated in the 2006 and 2005 financial years due to a change in Vodacom's reporting policy. Conversions between categories have now been excluded from gross connections. Based on the previous policy, contract connections would have been 610 thousand in the 2005 financial year and 702 thousand in the 2006 financial year and prepaid connections would have been 5,566 thousand in the 2005 financial year and 8,422 thousand in the 2006 financial year. Information for the 2004 financial year is unavailable.

(11) Vodacom has changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 and 2004 financial years.

- (12) Vodacom had a total of 732, 581, 469, 183 and 280 temporary and contract employees as of March 31, 2008, 2007, 2006, 2005 and 2004, respectively. Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees.
- (13) Includes 100% of Vodacom's operations in the Democratic Republic of the Congo.
- (14) Penetration calculations are Vodacom estimates.

DIVIDENDS AND DIVIDEND POLICY

All of Telkom's issued and outstanding ordinary shares, including the class A ordinary share and the class B ordinary share, rank equal for dividends. No dividend may be declared to a holder of the class A ordinary share or class B ordinary share, unless the same dividend is declared to holders of all ordinary shares. The following table sets forth information with respect to dividends paid by Telkom. Dividends are expressed in Rands and translated, solely for the convenience of the reader, into U.S. Dollars at the Rand noon buying rate described in Item 3. "Key Information – Exchange Rates" below on the relevant dividend payment date. The actual rate that cash dividends are converted to U.S. Dollars by the depositary may not equal the Rand noon buying rate on the dividend payment date.

On June 6, 2008, Telkom's board of directors declared a 2008 financial year final ordinary dividend No. 13 of R6.60 per share to be paid on July 7, 2008 to shareholders registered as of July 4, 2008, which are not included in the table below. No special dividend was declared due to an increased investment in our expansion program, pressure on the fixed-line EBITDA margin and net debt levels.

Year ended March 31,	Dividends paid per Ordinary Share		Dividends paid per ADS		Total dividends (millions)		Dividend cover
	ZAR	USD	ZAR	USD	ZAR	USD	
2008 ⁽²⁾	11.00 ⁽³⁾	1.57 ⁽³⁾	44.00 ⁽³⁾	6.29 ⁽³⁾	5,626.6 ⁽³⁾	804.9 ⁽³⁾	2.0x
2007 ⁽⁴⁾	9.00 ⁽⁵⁾	1.25 ⁽⁵⁾	36.00 ⁽⁵⁾	4.99 ⁽⁵⁾	4,677.4 ⁽⁵⁾	647.8 ⁽⁵⁾	1.9x
2006 ⁽⁶⁾	9.00 ⁽⁷⁾	1.30 ⁽⁷⁾	36.00 ⁽⁷⁾	5.22 ⁽⁷⁾	4,801.2 ⁽⁷⁾	695.8 ⁽⁷⁾	1.9x
2005 ⁽⁸⁾	1.10 ⁽⁹⁾	0.18 ⁽⁹⁾	4.40 ⁽⁹⁾	0.72 ⁽⁹⁾	606.7 ⁽⁹⁾	99.1 ⁽⁹⁾	11.1x
2004 ⁽¹⁰⁾	0.90 ⁽¹¹⁾	0.13 ⁽¹¹⁾	3.60 ⁽¹¹⁾	0.53 ⁽¹¹⁾	501.3 ⁽¹¹⁾	74.5 ⁽¹¹⁾	9.2x

Notes:

- (1) Dividend cover is calculated by dividing profit for the year attributable to equity holders of Telkom by the dividend for the year.
- (2) Based on 511,513,237 ordinary shares outstanding. As of March 31, 2008, 21,342,199 of the 520,784,186 issued ordinary shares were held by Telkom's subsidiaries.
- (3) Includes a 2007 financial year final ordinary dividend No. 12 of R6.00 per share and a special dividend of R5.00 per share that was paid on July 9, 2007 to shareholders registered as of July 6, 2007.
- (4) Based on 519,711,236 ordinary shares outstanding. As of March 31, 2007, 23,086,074 of the 532,855,528 issued ordinary shares were held by Telkom's subsidiaries.
- (5) Includes a 2006 financial year final ordinary dividend No. 11 of R5.00 per share and a special dividend of R4.00 per share that was paid on July 14, 2006 to shareholders registered as of July 7, 2006.
- (6) Based on 533,465,571 ordinary shares outstanding. As of March 31, 2006, 23,536,579 of the 544,944,899 issued ordinary shares were held by Telkom's subsidiaries.
- (7) Includes a 2005 financial year final ordinary dividend No. 10 of R4.00 per share and a special dividend of R5.00 per share that was paid on July 8, 2005 to shareholders registered as of July 1, 2005.
- (8) Based on 551,509,083 ordinary shares outstanding. As of March 31, 2005, 23,566,248 of the 557,031,819 issued ordinary shares were held by Telkom's subsidiaries.
- (9) Paid on July 9, 2004.
- (10) Based on 557,031,819 ordinary shares outstanding. As of March 31, 2004, 3,185,736 of the 557,031,819 issued ordinary shares were held by Telkom's subsidiaries.
- (11) Special dividend.

We cannot assure you that any dividend will actually be paid in the future or what the timing or amount of any future dividends will be. Telkom's current dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable us to achieve our strategy. Telkom may revise its dividend policy from time to time. The determination to pay dividends, and the amount of the dividends, will depend upon, among other things, the following:

- our earnings;
- our financial condition;
- our capital requirements;
- general business conditions and strategies and other investment opportunities;
- dividends received from Vodacom;
- cash flows and the availability of cash;
- net debt levels;
- interest coverage and future expectations;
- share buy back plans;
- the possible effects on our credit worthiness;
- contractual restrictions on the payment of dividends;
- the pay-out and dividend ratios of other major South African companies and other communications providers; and
- other factors our board of directors may deem relevant, including future growth prospects.

Under South African law, a company may make payments to its shareholders if authorized thereto by its organizational documents. A company may not make any payment, in whatever form, to its shareholders if there are reasonable grounds for believing that:

- the company is or would, after the payment, be unable to pay its debts as they become due in the ordinary course of business; or
- the consolidated assets of the company fairly valued, after the payment, would be less than the consolidated liabilities of the company.

Under South African law, a shareholder is liable to a company for any payments received by the shareholder from the company in violation of these restrictions.

Pursuant to Telkom's memorandum and articles of association, for so long as the Government of the Republic of South Africa is a significant shareholder, Telkom's dividend policy and all declarations of dividends and payments to shareholders must be approved by at least two of the directors appointed by the Government. Pursuant to Telkom's memorandum and articles of association, the Government is a significant shareholder for so long as it holds the class A ordinary share and at least 15% of Telkom's issued ordinary shares. This percentage is to be reduced from time to time to reflect the dilutive effect of issuances of new ordinary shares, but may not be less than 10%.

Telkom's ability to make future dividend payments will be determined based upon its financial position under IFRS. The following table sets forth a reconciliation of retained earnings in accordance with IFRS to distributable retained earnings in accordance with IFRS for the periods indicated.

	Year ended March 31,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>U.S.D</u>
	(in millions)					
Retained earnings of Telkom Group in accordance with IFRS	13,482	19,232	22,904	26,499	27,310	3,355
Share of retained earnings of Vodacom . .	(3,918)	(4,030)	(4,292)	(4,762)	(5,696)	(700)
Distributable retained earnings in accordance with IFRS	9,564	15,202	18,612	21,737	21,614	2,655

The distribution of retained earnings of Vodacom is restricted, as Telkom requires the consent of the other shareholder of Vodacom to declare dividends. As described in Item 10. "Additional Information – Taxation," Telkom is required to pay secondary tax on companies at a flat rate of 10% (12.5% prior to October 1, 2007) in respect of the amount of certain dividends declared by it net of any dividends received from our joint venture and certain subsidiaries. The Government announced that it intends to abolish secondary tax on companies in the 2009 financial year and replace it with a withholding tax at a rate of 10%, applicable to both South African residents and non-residents, subject to any relevant double tax agreement. As a result of the payment of secondary tax on companies, the amount of dividends that may actually be paid is less than the amount of distributable reserves. Distributable reserves are available for distribution based on Telkom's dividend policy. Telkom's board of directors decides the amount of distributable reserves to be reinvested in operations and the amount of any remaining funds that are available for distribution to shareholders or possible share repurchases.

Telkom expects to pay any cash dividends solely in Rands. Cash dividends payable to holders of American Depositary Shares, or ADSs, listed on the New York Stock Exchange will be paid to the depository's custodian, which will convert the dividends into Dollars, at the rate of exchange applicable on the date such dividends are paid, for disbursement to holders. Fluctuations in the exchange rate between Rands and Dollars and expenses of the depository will affect the Dollar amounts actually received by holders of ADSs upon conversion by the depository of such cash dividends.

Provided that the relevant share certificate is endorsed "non-resident" or an entry is made to such effect in the relevant electronic register, there is currently a blanket approval under the South African exchange control regulations for the free transferability of cash dividends to holders of ordinary shares or ADSs. See Item 10. "Additional Information – Exchange Controls".

In addition to the corporate tax on taxable income of South African companies at a rate of 30% for the 2005 financial year, 29% for the 2006, 2007 and 2008 financial years and 28% for the 2009 financial year, South African companies pay secondary tax on companies as described above. Capitalization shares or stock dividends distributed to holders of ordinary shares do not incur secondary tax on companies. Because of this tax treatment, it has become common practice in South Africa for companies to offer capitalization shares in lieu of cash dividends. Capitalization shares are shares issued by a company, the payment for which is allocated out of the company's reserves, including share premium, or unappropriated profits.

For a discussion of the material South African and U.S. federal income tax provisions regarding the taxation of dividends on ordinary shares and ADSs, see Item 10. "Additional Information – Taxation."

Share repurchases

For a discussion of share repurchases, see Item 7. "Major shareholders and related party transactions."

Taxation

A share repurchase and subsequent cancellation of shares by a South African company is deemed to be a dividend in terms of the South African Income Tax Act, 58 of 1962, on the difference between the nominal value of the share and the value purchased, unless purchased from the share premium of the company that does not comprise capitalized profit. As of March 31, 2008, Telkom had fully utilized its share premium for this purpose. The tax on such a deemed dividend is payable by the company at a rate of 10% (12.5% prior to October 1, 2007). The Government announced that it intends to abolish secondary tax on companies in the 2009 financial year and replace it with a withholding tax at a rate of 10% applicable to both South Africa residents and non-residents, subject to any relevant double tax agreement.

EXCHANGE RATES

Unless otherwise specified, as used in this annual report:

- references to “Rand”, “R”, “ZAR” and “SA Cents” are to South African Rand and Cents, the currency of the Republic of South Africa;
- references to “Dollars”, “\$”, “USD” and “U.S. Cents” are to the United States Dollar and Cents, the currency of the United States; and
- references to the “Rand noon buying rate” are to the noon buying rates in New York City for cable transfers in Rands as certified for customs purposes by the U.S. Federal Reserve Bank of New York expressed in Rands per U.S.\$1.00.

For your convenience, this annual report contains translations of certain Rand amounts into Dollars. You should not assume, however, that Rands could have been exchanged into Dollars at any particular rate or at all. Unless otherwise stated, translations of Rand amounts into Dollars have been made at R8.14 per U.S.\$1.00, the Rand noon buying rate on March 31, 2008, the date of the Telkom Group’s most recent balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into U.S. dollars at these rates or at all.

The table below shows the high, low, average and end of period Rand noon buying rates for the periods indicated. The end of period Rand noon buying rate is computed on the last business day of the relevant period and the average Rand noon buying rate is computed using the Rand noon buying rate on the last business day of each month during the period indicated.

<u>Year ended March 31,</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>End of period</u>
2004	8.24	6.26	7.05	6.32
2005	7.05	5.62	6.22	6.22
2006	6.92	5.96	6.39	6.15
2007	7.94	5.98	7.09	7.29
2008	8.21	6.45	7.15	8.14
January	7.45	6.74		
February	7.90	7.41		
March	8.21	7.76		
2009				
April	8.03	7.54		
May	7.76	7.47		
June	8.12	7.70		
July (through July 9)	7.92	7.68		

On July 9, 2008, the Rand noon buying rate was R7.68 per U.S.\$1.00.

Fluctuations in the exchange rate between the Rand and the Dollar will affect the Dollar amounts received by holders of American Depositary Shares, or ADSs, each representing four ordinary shares of Telkom, on conversion of dividends, if any, paid in Rands on the ordinary shares and may affect the Dollar trading price of the ADSs on the New York Stock Exchange.

RISK FACTORS

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of the Telkom Group and Vodacom and the related notes thereto included elsewhere in this annual report before making an investment decision with respect to Telkom's ordinary shares or ADSs.

Risks related to our business

Any changes to Telkom's mobile strategy and its inability to successfully implement such strategy and organizational changes thereto, could cause our growth rates, operating revenue, net profit and dividends to decline.

As discussed in greater detail below, Telkom has made a decision to invest in the build out of a fixed-wireless and mobile data network. In addition, on June 2, 2008 Telkom issued a cautionary announcement regarding its receipt of a non binding proposal by a wholly-owned subsidiary of Vodafone to acquire a portion of Telkom's stake in Vodacom, subject to, among other things, Telkom distributing its remaining stake in Vodacom to Telkom's shareholders, and the receipt by Telkom of a letter from a consortium comprising Mvelaphanda Holdings (Proprietary) Limited, affiliated funds of Och-Ziff Capital Management Group and other strategic investors related to the consortium's consideration of making an offer for the entire issued share capital of Telkom subject to a number of conditions. On July 15, 2008, Telkom issued a further cautionary announcement that its discussions with Vodafone and independently with the consortium are still ongoing and shareholders are advised to continue to exercise caution when dealing in Telkom securities. Telkom is currently limited in its ability to pursue or provide full mobile services in South Africa and sub-Saharan Africa by the provisions of the Vodacom joint venture agreement with Vodafone. There can be no assurance the Telkom will ultimately elect to divest of its interest in Vodacom or the structure or the ultimate value of Telkom and its shareholders of its Vodacom interest, or that Telkom's mobile strategy will change or that it will be successful in pursuing any new mobile opportunities. Telkom's management and board may expend significant resources and time exploring alternative mobile strategies that ultimately are not successful, which could cause its growth rates, operating revenue, net profit and dividends to decline.

Increased competition in the South African telecommunications market may result in a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline and our churn rates to increase.

Neotel (Proprietary) Limited, or Neotel, formerly known as SNO Telecommunications (Pty) Limited, which was granted an additional license to provide public switched telecommunications services in South Africa, was licensed on December 9, 2005 and commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to corporate customers and other licensees. Neotel is 30% owned by Transtel Telecoms, a division of Transnet Limited, or Transtel, and Eskom Enterprises (Pty) Limited, or Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. On March 19, 2008 Neotel announced that the Competition Tribunal of South Africa had approved its acquisition of Transtel without any conditions. On April 25, 2008, Neotel announced that the first of its consumer products were available to limited parts of Johannesburg and Pretoria. The Government has created an infrastructure company, Infraco, which stated it would provide inter-city bandwidth at cost based prices to Neotel, and later to the rest of the industry, which will further compete with our communications network as an alternative provider of communications infrastructure. A process to issue additional licenses to small business operators to provide telecommunications services in underserved areas with a teledensity of less than 5%,

commenced in 2005 and is continuing. These are referred to as underserved areas licensees, or USALs. The Minister of Communications has identified 27 of these underserved areas. The Independent Communications Authority of South Africa, or ICASA has issued licenses to successful bidders in seven of them and the Minister has issued invitations to apply for licenses in 14 additional areas. In August 2006 ICASA recommended to the Minister that licenses be granted to successful applicants in 13 of these areas. While it was expected that further licenses would be issued in the 2007 calendar year, no additional licenses were issued. The Minister of Communications, on the other hand, has issued a policy direction to ICASA, directing it to, where there is more than one license in a province, merge the licenses and issue one Provincial Under-Served Area Network Operator, or PUSANO license. None of these consolidated licenses have yet been issued by ICASA.

Telkom competes for telephone customers with the three existing mobile communications network operators, Vodacom, Mobile Telephone Network Holdings (Pty) Limited, a wholly owned subsidiary of the MTN Group Limited, or MTN, a public company listed on the JSE Limited, or JSE, and Cell C (Pty) Limited, or Cell C, which entered into a joint venture with Virgin Mobile. Telkom has experienced significant customer migration in recent years from fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service, with the increase in mobile penetration in South Africa. If this migration continues, our growth rates, operating revenue and net profit could decline. Telkom also competes with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks.

We expect that the introduction of number portability and carrier pre-selection could further enhance competition and increase our churn rates. As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty through improved services and products and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate pressure on our overall average tariffs, a reduction in our market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

Increased competition in the South African data communications market may adversely impact our growth rates, operating revenue and net profit.

Following the launch of Vodacom's, MTN's and Cell C's 3G networks, mobile customers are also now able to browse the internet on a broadband platform, which provides increased competition for data services. Our business, including Vodacom, also face increased competition from other mobile operators, value added network operators and private network operators as a result of determinations by the South African Minister of Communications in September 2004 and the Electronic Communications Act, No. 36 of 2005, which came into effect on July 19, 2006. The new licensing framework included in the Electronic Communications Act is resulting in the market becoming more horizontally layered with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business.

VANS providers, mobile operators and Neotel are the main competitors in the data market. They provide competitive internet protocol virtual private networks and internet service provider services to the business segment. Neotel is entering the market through competitive pricing and niche products such as fiber connections and rings. We also face competition from consumer oriented internet service providers. In addition, our data services have faced increased competition from competitors in the wireless area, particularly the mobile operators, that offer competing broadband services, and, to a lesser extent, Sentech, which owns and operates satellite transmission systems, a packaged, always-on, bi-directional broadband service via satellite and a wireless high-speed internet service offer. Competition in the data market is expected to increase, which could adversely impact growth rates, operating revenue and net profit.

We may not be successful in implementing our strategy of transforming from basic voice and data connectivity to fully converged solutions offering integrated voice, data, video and internet services and managing costs through our capability management program, which could adversely impact our ability to maintain profitability by growing and protecting revenue, while managing costs.

Our strategy for transformation includes the targeting of significant growth in new business areas and managing costs in the face of declining fixed-line voice revenues through our capability management initiative designed to realign our structure, employees and resources to better match our transforming information, communications and technology business. This may result in changes to our products, services, markets and culture. If this transformation strategy is unsuccessful there is a risk that future revenue and profitability will decline. In particular, we have targeted significant growth in new business areas, such as fixed-mobile capability, broadband services and converged services. Our ability to succeed in these new business areas is subject to a number of risks, including our ability to hire and retain individuals with experience in these areas, our ability to leverage the Telkom brand into new areas and its acceptance by customers in those areas, our ability to source our network infrastructure and support services from third party suppliers, capital costs and constraints and market acceptance of new products and services. Our ability to achieve the planned cost reductions through capability management is further subject to our ability to outsource necessary services and source strategic partners with the necessary benefits of scale and required information, communications and technology capabilities to enable continued alignment and transformation. In particular, our outsourcing initiatives will be subject to compliance with South Africa labor and employment laws and successful negotiations with our labor unions and workforce. See “Risks related to the Republic of South Africa – Significant labor expenses as a result of collective bargaining and the cost of compliance with South Africa labor laws could limit our operating flexibility and disrupt our fixed-line business operations and reduce our net profit.” In view of the likely level of competition and uncertainties regarding the level of economic activity, there can be no certainty that we will meet our growth and cost reduction targets in these areas with a consequential impact on future revenue and profitability.

There are significant political, economic, regulatory, taxation and legal risks associated with Vodacom’s and Telkom’s African investments outside of South Africa, which could adversely affect their businesses and cause their financial condition and net income to decline.

Vodacom currently has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique and Telkom acquired investments in Africa Online, an internet service provider active in Cote d’Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, and Multi-Links, which provides telecommunications services throughout Nigeria. These countries have political, economic, regulatory and legal systems that are still in the process of transformation and are subject to less developed corporate governance and business practices and more bureaucratic and regulatory delays than those in the Republic of South Africa. Many of these countries also suffer from poverty, civil strife, political conflict, corruption and political mismanagement, all of which could make it difficult for Vodacom and Telkom to comply with legal requirements, including, in the case of Telkom, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, which could subject Vodacom and Telkom to fines and penalties, adversely affect their business operations, and cause the value of their investments in these countries and their revenue and net profit to decline. In particular, the Democratic Republic of the Congo has had a history of civil war and its first democratic elections only took place on July 30, 2006 and Zimbabwe has faced international scrutiny and sanctions due to governmental actions and is currently engaged in contested presidential elections. In addition, there are a limited number of skilled employees available in these countries. If Telkom and Vodacom are unable to attract and retain skilled employees for their operations outside of South Africa, these operators could be materially adversely

affected. The regulatory and tax environments in these countries also often lack clarity in a number of areas and are subject to varying interpretations. Political or economic upheaval or changes in laws and regulations or in their application may harm the operations of the companies in which Vodacom and Telkom invest and impact the value of these investments.

Most of the fixed-line operators in these countries are state controlled. As a result, the mobile communications network operators in which Vodacom has invested may encounter difficulties in negotiating commercially acceptable interconnection agreements and collecting amounts due under interconnection agreements as Vodacom has experienced this in the Democratic Republic of the Congo and Tanzania. Telkom's new investments in African countries may experience similar difficulties. In addition, Telkom's and Vodacom's other African operations have local minority shareholders and accordingly, they are subject to risks in their dealings with local shareholders that their interests may not always be aligned with those of Telkom and Vodacom. A number of jurisdictions in which Vodacom invests have also imposed price controls, particularly for interconnection, which could reduce Vodacom's net profit and cause the value of Vodacom's investments in these other African countries to decline. There are also foreign exchange control restrictions in South Africa, which may restrict Vodacom's and Telkom's ability to fund their investments in these countries, and there are foreign exchange controls in a majority of these countries, which may restrict Vodacom's and Telkom's ability to extract value from these investments.

The number of commercially attractive acquisition and investment opportunities for our fixed-line and mobile businesses on the African continent is limited. Moreover, the consummation of acquisitions and investments may be unsuccessful, which could have a material adverse effect on Telkom's and Vodacom's future growth.

Telkom is pursuing growth through acquisitions and investments in countries throughout the African continent and elsewhere. In addition, Vodacom intends to continue to seek future growth opportunities from acquisitions of telecommunications operators or licenses in other African countries. There are significant risks associated with Telkom's and Vodacom's ability to identify and successfully consummate and grow acquisitions and investments. There are a limited number of acquisition and investment opportunities and there is substantial competition for the types of acquisitions and investments that would meet the criteria of Telkom and Vodacom. Increased competition has driven up the prices for the types of acquisition and investment opportunities Telkom and Vodacom target, which has made the identification, consummation and growth of acquisition and investment opportunities more difficult. As a result, Vodacom has not been able to consummate any recent acquisitions that meet its investment criteria. In addition, South African foreign exchange control limitations could delay or prevent investments by Telkom and Vodacom in other countries. There are also a limited number of partners that are able to arrange their own funding to invest in ventures in other African countries with Telkom and Vodacom. Telkom has only recently made its first two investments outside of South Africa and the telecommunications field, and its investment in Telkom Media represented its first significant initiative outside of its traditional telecommunications business. Accordingly, Telkom has limited prior experience investing outside of South Africa and in other businesses. For example, Telkom recently announced its decision to substantially reduce its investment in Telkom Media, in which Telkom had invested R326 million up to March 31, 2008, and was required to provide an impairment provision of R217 million. If Telkom is not able to procure a purchaser for its investment, it could incur additional losses from the investment and its reputation and relations with ICASA could be harmed. To the extent that Telkom and Vodacom are not able to grow through other acquisitions and investments, our stock price could decline. Moreover, Telkom and Vodacom could expend a substantial amount of time and expense pursuing acquisitions they do not consummate, which could adversely affect their reputation, business, financial condition, results of operations and growth.

The expansion of Telkom's and Vodacom's operations may also place a significant strain on their management, financial, technical and other resources. Their ability to manage future growth through acquisitions and investments will depend upon their ability to monitor operations, maintain effective quality, corporate governance and financial controls and significantly expand their internal management, technical and accounting systems, all of which will result in higher operating expenses. The integration of acquired communications and mobile businesses may involve, among other things, implementation and integration of management, financial reporting and control systems, some of which may be incompatible with their existing systems and therefore may need to be replaced. In addition, telecommunications operators generally experience higher customer and employee turnover rates during and after an acquisition or launch of service. We cannot assure that Telkom or Vodacom will be able to integrate successfully and grow any businesses they may acquire or invest in.

The growth in the mobile market in South Africa has resulted in an increase in the number of Vodacom and Telkom calls terminating on mobile networks as opposed to our fixed-line network. Vodacom's and Telkom's net interconnect margins and net profit could decline if this trend continues.

Vodacom and Telkom have experienced a change in the traffic mix as mobile customers have increased relative to fixed-line customers. This resulted in an increasing percentage of calls from Vodacom's network terminating on other mobile networks rather than our fixed-line network. Vodacom's interconnection payments have increased and its margins have decreased because the cost of terminating calls on other mobile networks is higher than the cost of terminating calls on Telkom's fixed-line network. As a result, Vodacom's South African net interconnect margins have declined in recent years. Similarly, Telkom has incurred increased payments to other operators as a result of the growth in interconnection traffic for fixed-line calls terminating on mobile networks. If mobile customers continue to increase and there is little or no growth in fixed-line customers, this trend could continue and Vodacom's and Telkom's net interconnect margins and net profit could decline.

Increased competition in the mobile communications markets in South Africa and other African countries may result in a reduction of Vodacom's average tariffs and Vodacom's market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline and its churn rates to increase.

Vodacom faces intense competition in the mobile communications markets in South Africa and other African countries. At March 31, 2008, Vodacom estimates that it held approximately 55%, MTN held approximately 34%, Cell C held approximately 11% and Virgin Mobile, through its joint venture with Cell C, held less than 1% of the South African mobile communications market, based on total estimated customers, compared to 58%, 33%, 9% and less than 1%, respectively, at March 31, 2007. Increasing competition, together with the further liberalization of the South African telecommunications industry, may result in the continued reduction in Vodacom's overall average tariffs, loss of market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline. In addition, the implementation of mobile number portability in the 2007 financial year and the commencement of the Electronic Communications Act could further increase competition and cause Vodacom's churn rates to increase.

If we are not able to continue to improve and maintain our management information and other systems, we could be subject to losses and inaccuracies in our financial reporting, our ability to provide accurate and comprehensive operating information and to compete may be harmed and our share price could decline.

Our management information systems do not provide management with certain operating data and financial information on a real-time basis that at times has made our budgeting and planning

processes difficult and our current operating support system also needs to be evolved and developed to a new next generation operating support system to integrate and support Telkom's conversion to a next generation network. We also currently are not able to provide an end to end process of order tracking for our voice customers. In addition, our customer and other management information systems and product catalogue are not yet fully integrated and therefore are not capable of providing us with comprehensive and detailed operating information, and we are not able to provide a single bill for customers with multiple locations and products or configure products and services across voice and data domains. To address these problems, we are in the process of developing and implementing a unified customer management system capable of generating a single view of the customer and have launched a scoping exercise to address the evolution to a next generation network. In addition, we have renewed our focus on information risk management and have identified several requirements for improved security of Telkom's information technology systems. To the extent we are not able to improve our systems and address these vulnerabilities, our ability to provide accurate and comprehensive operating information and to compete effectively in the increasingly liberalized South African communications market may be harmed and our share price could decline.

If we lose key personnel or if we are unable to hire and retain highly qualified employees and partners, our business operations could be disrupted and could impact on our ability to compete successfully.

Our success, including the success of Vodacom, depends in large part on our ability to hire, retain and partner with highly qualified employees and partners who possess the requisite qualifications and technical skills in the communications industry due to the continuous evolution and convergence of technologies. Telkom and Vodacom do not have long term retention agreements with a majority of their senior management, any of whom may terminate their employment at any time. The loss of key personnel could disrupt our business operations if we are unable to replace them with similarly qualified individuals. As competition in the communications industry increased, Telkom and Vodacom have experienced significantly increased employee resignations in recent years, particularly of key technical employees to Neotel, mobile operators and VANS as well as to other global technology companies. We expect that competition for employees in the South African communications industry will continue to increase as competition in the communications industry further increases. If we continue to lose a number of our key employees to our competitors and are not able to attract and retain highly qualified employees or partners, our business operations could be disrupted and our ability to compete could be harmed.

We do not have the right to appoint the majority of Vodacom's directors or members of its directing committee and the Vodacom joint venture agreement contains approval rights that may limit our flexibility and ability to implement our preferred strategies.

Although we are a 50% shareholder in Vodacom, Vodafone Group Plc, or Vodafone, beneficially owns the remaining 50% interest in Vodacom. As a result, our flexibility and ability to implement our preferred strategies may be limited by the fact that we do not have the right to appoint the majority of Vodacom's directors or members of its directing committee. In addition, under our memorandum and articles of association, the Government is entitled to nominate the directors we appoint to the Vodacom board. The Vodacom joint venture agreement, which governs the relationship between Telkom and Vodafone, requires each of Vodacom's shareholders who own 10% or more of Vodacom's shares, which are currently Telkom and Vodafone, to approve certain material transactions. As a result of these factors, we may not be able to impose strategies on Vodacom that we believe to be beneficial to us without the approval of Vodafone and Telkom does not have the ability to dictate or modify Vodacom's internal control over financial reporting nor the ability in practice to conduct an assessment of Vodacom's internal control over financial reporting and has accordingly excluded them from the scope of Telkom's Sarbanes-Oxley Section 404 Management Annual Report on Internal Control over Financial Reporting.

If Vodacom does not continue to pay dividends or make other distributions to Telkom, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

Telkom receives dividends from Vodacom which Telkom uses to fund a portion of its capital and operating expenditures, service its debt and other financial obligations and pay dividends to Telkom's shareholders. Vodacom is legally distinct from Telkom and has no obligation to pay dividends or make other distributions to Telkom. Vodacom's ability to pay dividends and make other distributions to Telkom may be restricted by, among other things, its operations and the availability of funds and the terms of credit and debt arrangements entered into by it, as well as statutory and other legal restrictions. In addition, Vodacom's ability to pay dividends or make distributions to Telkom and its other shareholder requires the approval of Vodacom's shareholders who own 10% or more of Vodacom's shares, which are currently Telkom and Vodafone. To the extent that Vodacom is unable to, or otherwise does not, pay dividends or make other distributions to Telkom in the future, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

We have negative working capital, which may impair our operating and financial flexibility and require us to defer capital expenditures and we may not be able to pay dividends and our operations and financial condition could be adversely affected.

We had negative consolidated working capital of approximately R9.3 billion as of March 31, 2008, compared to negative consolidated working capital of approximately R8.2 billion as of March 31, 2007 and approximately R3.0 billion as of March 31, 2006 and Vodacom had negative working capital of approximately R7.8 billion as of March 31, 2008, compared to negative working capital of approximately R7.4 billion as of March 31, 2007 and approximately R5.2 billion as of March 31, 2006. Negative working capital arises when current liabilities are greater than current assets. We intend to fund current liabilities through a combination of operating cash flows and with new borrowings and borrowings available under existing credit facilities. We had R7.6 billion available under existing credit facilities as of March 31, 2008. If we are unable to generate sufficient operating cash flows or borrowings to fund our current liabilities, our operating and financial flexibility could be impaired and we may be required to defer capital expenditures and may not be able to pay dividends and our business operations and financial condition could be negatively impacted.

Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments in technologies and equipment, which could reduce our return on investment and net profit.

The services we offer are technology intensive. The development of new technologies, such as fixed wireless services, packet radio services, 3G technologies, WiMAX Passive Optical Networks, ADSL2+, Synchronous High bit rate Digital Subscriber Lines, HSDPA and HSUPA, could increase competition and make our technology obsolete. We may have to make substantial additional investments in new technologies to remain competitive. New technologies we choose may prove not to be commercially successful. In addition, changes in technology could make our existing equipment obsolete and we may not be able to obtain replacement equipment or parts or may be required to spend significant capital to replace existing equipment, which may not be available on commercially acceptable terms or at all. As a result, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer bases, which could reduce our return on investments and net profit.

If we continue to experience high rates of theft, vandalism, network fraud, payphone fraud and lost revenue due to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

We have experienced significant cable theft, theft of solar panels and wireless communications equipment, vandalism of payphones, network fraud, such as non-licensed calls, and payphone fraud in our fixed-line business. Theft and vandalism have caused our fixed-line fault rates to increase and the repair times on our network and the network downtimes associated with such faults and network fraud and payphone fraud have resulted in lost operating revenue and significant costs. Theft of cable increased significantly in the 2008 and 2007 financial years due to the increase in the price of copper. We have also lost operating revenue to non-licensed operators providing telecommunications services in South Africa. If we are unable to control theft, vandalism, network fraud and payphone fraud or if we continue to lose operating revenue to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

Delays in the development and supply of communications equipment may hinder the deployment of new technologies and services and cause our growth rates and net profit to decline.

Our operations, including the operations of Vodacom, depend in part upon the successful and timely supply of evolving fixed and mobile communications technologies. We use technologies from a number of suppliers and make significant capital investments in connection with communications technologies. If technologies are not developed or delivered by our suppliers on time or do not perform according to expectations or achieve commercial acceptance, we may be required to delay service introductions and make additional capital expenditures and we could be required to write-off investments in technology, which could cause our growth rates and net profit to decline.

Actual or perceived health risks relating to mobile handsets, base stations and associated equipment and any related publicity or litigation could make it difficult to find attractive sites for base stations and reduce Vodacom's growth rates, customer base, average usage per customer and net profit.

Concern has been expressed that the electromagnetic signals from mobile handsets, base stations and associated equipment may pose health risks. Actual or perceived risks of mobile handsets or base stations and related publicity or litigation, could make it difficult to find attractive sites for base stations and reduce Vodacom's growth rates, customer base, average usage per customer and net profit.

Risks related to Telkom's ownership by the Government of South Africa and major shareholders

Telkom's major shareholders are entitled to appoint the majority of Telkom's directors and exercise control over Telkom's strategic direction and major corporate actions.

The Government of the Republic of South Africa beneficially owned 39.8% of Telkom's issued and 41.5% of Telkom's outstanding ordinary shares plus the class A ordinary share as of June 30, 2008. Through its ownership and voting arrangements provided for in Telkom's articles of association, the Government is entitled to appoint five of Telkom's directors, and is able to exert considerable influence over Telkom's corporate governance, strategic direction and major corporate actions and to appoint directors of Telkom's subsidiaries and the Vodacom joint venture. In addition, as of June 30, 2008, the Public Investment Corporation, an investment management company wholly owned by the South African Government, directly owned 6.6% of Telkom's issued and 6.8% of Telkom's outstanding ordinary shares, which it acquired in the market, and, through its ownership of Black Ginger 33 (Pty) Ltd., or Black Ginger, a wholly owned subsidiary, beneficially owned Telkom's class B ordinary share, and is entitled to appoint one of Telkom's directors.

Telkom's articles of association require Telkom to obtain written consent from the Government before taking actions that would limit Telkom's ability to provide public switched telecommunication services. Telkom's articles of association also require the approval of directors appointed by the Government in order for Telkom or any of its subsidiaries, including Vodacom, to enter into major corporate actions and transactions, including amendments to Telkom's management structure and the powers of Telkom's executive committee, the approval of Telkom's dividend policy and payment of dividends, increases in Telkom's indebtedness beyond certain limits and changes of control. As a result, without the approval and participation of the Government, Telkom is not able to consummate transactions involving an actual or potential change of control, including transactions in which you might otherwise receive a premium for your ordinary shares or ADSs over market prices. Because the Government exercises control over Telkom, holders of ordinary shares and ADSs lack meaningful power to approve decisions of Telkom's board of directors or to influence our strategic direction and major corporate actions.

The Government of the Republic of South Africa may use its position as shareholder of Telkom and policymaker for, and customer of, the telecommunications industry in a manner that may be favorable to our competitors and unfavourable to us.

The Government of the Republic of South Africa owned 39.8% of Telkom's issued and 41.5% of Telkom's outstanding ordinary shares as of June 30, 2008. The Government also holds significant equity stakes in other industry participants, including Sentech, and has an indirect 30% equity interest in Neotel and recently created Infracore, which is expected to provide inter-city bandwidth at cost based prices to Neotel and later to the rest of the industry. To further its policy of liberalization of the telecommunications industry, the Government may adopt and implement policies and exercise its right to approve regulations that benefit our competitors but are not beneficial to us. In addition, to further other political or social objectives, the Government may be required to act in a manner that may be detrimental to our business but advantageous to our competitors.

The Government of the Republic of South Africa is also one of our customers. We estimate that Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line operating revenue and at least 4% of our total fixed access lines in the year ended March 31, 2008. The Government has, and in the future may, transfer some or all of its existing business to Neotel or other operators, including value added network service providers. Legislation has been enacted to centralize all procurement of telecommunications and information technology services by the Government, through one agency. If the Government transfers some or all of its business to other operators, our operating revenue and net profit could decline.

Risks related to regulatory and legal matters

The regulatory environment for the telecommunications industry in South Africa is evolving and regulations addressing a number of significant matters have not yet been made. The interpretation of existing regulations, the adoption of new policies or regulations that are unfavorable to us, or the imposition of additional license obligations on us, could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

The licensing and provision of telecommunications services in the Republic of South Africa is governed by the Electronic Communications Act, which repealed the Telecommunications Act and came into effect on July 19, 2006. While a new licensing regime was created by the Electronic Communications Act, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime. Regulations made under the Telecommunications Act are also to remain in force until they are amended or replaced by new regulations made to fully implement the provisions of the Electronic Communications Act. As a result, the regulatory environment is

evolving, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalized. In addition, the regulatory process entails a public comment process, which, in light of the politicized issue of privatization of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified, including:

- the process of converting our licenses to the new legal framework provided by the Electronic Communications Act and the extent of additional obligations and limitations that may be imposed on our converted licenses as a result of proposals by ICASA to reintroduce quality of service obligations that lapsed in 2002;
- the extent to which our fixed-line business will be required to make its facilities or access lines available to Neotel or other competitors to provide services, other than public switched telecommunications services, on a resale basis;
- the extent to which our fixed-line business may be required to unbundle its local loop;
- the legal and regulatory framework that will ultimately be established to implement the provisions of the Electronic Communications Act; and
- the additional obligations that may be imposed on us in terms of the Electronic Communications Act if we are found to be dominant in a market in which we operate.

ICASA is the regulatory body that governs the South African communications market pursuant to the Electronic Communications Act. It has been reported that ICASA may lack adequate resources to effectively fulfill its regulatory and licensing functions and to deal with regulatory challenges that continue to change given the rapidly evolving telecommunications environment. ICASA's capacity may be further strained by the workload that is imposed on it by the Electronic Communications Act. This combination of factors creates further uncertainties in the regulatory arena and the ability of ICASA to effectively fulfill its functions. In addition, while we believe our relationship with ICASA has improved in recent years, we had disagreements with, and cases against, ICASA in the past. We cannot predict the outcome or timing of any amendments to applicable regulations or the interpretation thereof, the release of new regulations or their impact on us. However, changes in the regulation of telecommunications services in South Africa, the imposition of unfavorable terms in our licenses or the loss or unfavourable amendment of any license could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

In addition, new laws and regulations that may require our business customers to make use of suppliers complying with black economic empowerment requirements may affect us. If Telkom is not able to meet the minimum requirements of these black economic empowerment initiatives or restrictions, some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfill such requirements.

Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our revenues and net profit. Vodacom's revenue and net profit could also decline if wholesale price controls are imposed on it.

Regulations made under the Telecommunications Act, which remain in effect, impose a price cap on a basket of Telkom's services and a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity and the rental and installation of business exchange lines. Approximately 57% of Telkom's operating revenue in the year ended March 31, 2008 was included in this basket. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was

lowered from 1.5% to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA and pursuant to the Electronic Communications Act, revenue generated from services where we have significant market power may not be used to subsidize competitive services. Early in 2008, ICASA commissioned a review of the existing price control regulations applicable to Telkom, however, ICASA has not initiated the statutory public process of reviewing the existing regulations. Telkom is awaiting communication from ICASA in respect of proposed timelines for the review. It is possible that both the composition of the basket and the price cap will be changed in a manner detrimental to Telkom, which could lower its revenues. It is not possible at this stage to assess the extent of these changes. It is unlikely that these changes will be implemented in time for Telkom's latest tariff filing, due to be effective from August 1, 2008.

These limitations on our customer tariffs limit our pricing flexibility and could reduce our net profit. Similarly, Vodacom's revenue and net profit could decline if price controls are imposed on it.

Any payments to Telcordia Technologies Incorporated, or Telcordia, in the damages phase of its arbitration proceedings against Telkom, will be required to be funded by Telkom from cash flows or the incurrence of debt, which could have a material adverse effect on its financial condition and results of operations.

Telcordia instituted arbitration proceedings against Telkom in March 2001 seeking to recover approximately U.S.\$130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year, which was increased by Telcordia to U.S.\$172 million in the 2007 financial year and subsequently decreased to U.S.\$128 million in the 2008 financial year. The arbitration proceeding relates to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end to end customer assurance and activation system by Telcordia. In September 2002, the arbitrator found that Telkom had wrongfully repudiated the contract and a partial award was issued by the arbitrator in favour of Telcordia, which was subsequently set aside by the South African High Court. On November 29, 2004, the South African Supreme Court of Appeals granted Telcordia leave to appeal. The South African Supreme Court of Appeals set aside the South African High Court's ruling, which was subsequently appealed by Telkom to the South African Constitutional Court and was dismissed by the South African Constitutional Court. As a result, the South African Constitutional Court's judgment brought to finality the dispute over the merits of Telcordia's claim against Telkom and the parties reconvened the arbitration in May 2007 to deal with the amount of damages to which Telcordia is entitled. The parties attempted to resolve the matter by way of mediation in February and April 2008 without success. The arbitration is expected to continue later in 2008.

Although Telkom is currently unable to predict the exact amount that it may eventually be required to pay Telcordia, it has made provision for estimated liabilities in respect of the Telcordia claim in the sum of U.S.\$70 million (R569 million), including interest and legal fees. Telkom will be required to fund any payments to Telcordia from cash flows or the incurrence of debt and the amount of any damages above Telkom's provision would increase Telkom's liabilities and decrease its net profit, which could have a material adverse effect on its financial condition, cash flows and results of operations. See Item 8. "Financial information – Legal Proceedings."

We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission. If we lose these legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition.

We are parties to a number of legal and arbitration proceedings, including complaints filed by the South African Value Added Network Services Providers Association, the South African Internet Service Providers Association and other VANS, with the South African Competition Commission, alleging anticompetitive practices. If we were to lose these legal and arbitration proceedings, we could be required to cease these practices, divest these businesses and be fined a penalty of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint venture, for each complaint for the financial year prior to the dates of the complaints. As competition continues to increase, we expect that we will become involved in an increasing number of disputes regarding the legality of services and products provided by us and third parties. These disputes may range from court lawsuits to complaints lodged by or against us with various regulatory bodies such as the complaint launched by ORION against Telkom with the South African competition authorities relating to certain discount plans that Telkom offers and Omnilink, M-Web and Internet Solutions relating to the pricing of Telkom's products and services. See "Item 8. Financial Information – Legal Proceedings". We are not currently able to predict when these disputes may be resolved or the amount that we may eventually be required to pay, however, we have not included provisions for any of these claims in our consolidated financial statements. Hearings for our legal proceeding with the South African Value Added Network Services Provider Association are currently scheduled before the South African High Court in the 2009 financial year. In addition, we may need to spend substantial amounts defending or prosecuting these claims even if we are ultimately successful. If we were to lose these or future legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition. We may be required to fund any penalties or damages from cash flows or drawings on our credit facilities, which could cause our indebtedness to increase.

If we are required to unbundle the local loop, or are unable to negotiate favorable terms and conditions for the provision of interconnection services and facilities leasing services or ICASA finds that we or Vodacom have significant market power or otherwise imposes unfavorable terms and conditions on us, our business operations could be disrupted and our net profit could decline.

The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop, which could significantly increase competition. The Minister of Communications published policy decisions that the process of unbundling the local loop in South Africa should be urgently implemented and completed by 2011. In compliance with the Minister's request ICASA has initiated consultations with Telkom on the process to be followed, and is expected to soon open consultation with all other stakeholders. ICASA plans to set up consultative committees to consider policy and legal, technical and processes, and financial, economic and competition issues relating to unbundling the local loop.

ICASA is entitled to issue, and has issued, regulations relating to interconnection and facilities leasing. Pursuant to the Electronic Communications Act, licensees, including Telkom and Vodacom, must, on request, interconnect with and lease electronic communications facilities to, any other licensee, unless such request is unreasonable and must enter into interconnection agreements and facilities leasing agreements for this purpose. Where the parties are unable to reach an agreement, the Electronic Communications Act confers on ICASA the power to intervene and propose, or impose, terms and conditions for the interconnection agreement, or refer the matter to the Complaints and Compliance Committee for resolution. ICASA must review any interconnection agreement to determine whether it is consistent with the regulations and, if the agreed terms are not consistent with the regulations, direct the parties to agree on new terms and conditions. The Electronic Communications Act also empowers ICASA to impose pro-competitive conditions on operators found to have significant market power in a market or market segments that have ineffective competition,

which may affect the manner in which interconnection is provided and facilities are leased by such operators, and the charges thereof, including the provision of interconnection and facilities at or near the long run incremental cost, or LRIC, of those services or facilities.

On January 29, 2007, ICASA published a consultation document for public comment and on May 17, 2007 it held a public enquiry on its intention to define relevant call termination wholesale markets. In its consultation document ICASA expressed the preliminary view that all providers of telecommunications networks, including Telkom and Vodacom, have significant market power in their call termination markets and that the appropriate price controls to be applied to the large operators, MTN, Vodacom and Telkom, is the LRIC, calculated on the basis of relevant forward looking economic costs of an efficient operator, including a reasonable cost of capital. In its findings published on November 9, 2007, ICASA confirmed that it considers each terminating network to be a separate market, however, it also recognized that the enquiry findings had to be restricted to defining the markets and that any pronouncements in respect of a determination of significant market power and any remedies that may flow from such determination will be done by means of regulations made in accordance with different processes, as envisaged in Section 67 of the Electronic Communications Act. On May 3, 2007, ICASA published a consultation document for public comment on its intention to define relevant end to end leased lines and other wholesale markets. In its consultation document ICASA defined the wholesale markets for fixed-line local loop access, fixed-line narrowband exchange lines, call origination and call conveyance, symmetric broadband originator services, trunk services for transmission within South Africa and international leased lines. ICASA expressed the preliminary view that Telkom is deemed to have significant market power in all these markets and the appropriate price controls to be applied is likely to be the LRIC, calculated on the basis of relevant forward looking economic costs of an efficient operator, including a reasonable cost of capital. Regulations are expected to follow in due course but probably not before the regulations dealing with market analysis, the determination of the level of competition and the determination of significant market power are completed. On December 24, 2007, ICASA issued draft regulations to set up the framework for the leasing of facilities by operators deemed to have significant market power in a defined market for those facilities. An operator that has control over essential facilities is deemed to have significant market power in the market for those facilities. The draft regulations consider most of the fixed-line facilities that we provide to be essential. Final regulations have not yet been published. The most significant impact on Telkom would be the obligation to build facilities to satisfy such requests where no spare capacity is available. The Minister of Communications has issued a policy decision declaring November 1, 2007 as the date from which the exclusivity provisions in our SAT-3 agreements shall be declared null and void. The Minister of Communications has also issued a policy direction to ICASA requiring it to prioritize and urgently prescribe a list of essential facilities, ensuring that the facilities connected to the SAT-3/WASC/SAFE submarine cables can be accessed soon. ICASA has established a draft regulation for public comment in compliance with this policy direction.

If we are required to unbundle the local loop, are unable to negotiate favorable terms and conditions for the provisions of interconnection and facilities leasing or ICASA finds that we or Vodacom have significant market power or otherwise imposes unfavourable terms and conditions on us, our business operations could be disrupted and our net profit could decline.

If we are unable to recover the substantial capital and operational costs associated with the implementation of carrier pre-selection and number portability or are unable to implement these requirements in a timely manner, our business operations could be disrupted and our net profit could decline. The implementation of carrier pre-selection and number portability will also likely further increase competition and cause our churn rates to increase.

The Telecommunications Act mandates that fixed-line operators are required to implement carrier pre-selection, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. Call-by-call carrier pre-selection must be implemented and must be provided by an operator within two months of it being requested by another operator and fully automatic pre-selection must be implemented and must be provided by an operator within ten months of it being requested by another operator. Telkom will not be able to fully implement carrier pre-selection until Neotel's interconnection systems and the inter-operator process and systems to support carrier pre-selection become available, however, Telkom does not believe that it will be able to implement automatic carrier pre-selection within ten months of it being requested. In addition, the Electronic Communication Act mandates that number portability to enable customers to retain their fixed-line and mobile telephone numbers if they switch between fixed-line operators or between mobile operators be introduced. Telkom is required to implement number portability in blocks of 10,000 numbers within two months after Neotel launches such retail services and individual number portability within 12 months after receiving a request from Neotel. Telkom and Neotel are currently in the process of finalizing the testing for the introduction of block number portability which is scheduled to take place in the middle of the 2008 calendar year. Number portability will therefore be phased in commencing with number portability in blocks of 10,000 numbers, followed by number portability in blocks of 1,000 numbers and then individual number portability. Mobile number portability was introduced on November 11, 2006. We have incurred substantial set-up costs and will incur maintenance costs in connection with the implementation of these requirements, which could disrupt our business operations. The extent of recoverability of these costs have not yet been determined and finalized by ICASA. We may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline. In addition, the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

The implementation of the Regulation of Interception of Communications and Provisions of Communication-Related Information Act, or RICA, could be costly and may negatively impact the ability of Telkom and Vodacom to register customers and may require them to disconnect existing customers, causing their penetration rates, growth rates, revenue and net profit to decline.

RICA is a South African law that regulates the authorization for and actual lawful interception of indirect communications. The Act came into effect on September 30, 2005, with the exception of certain sections requiring the collection of customer details and identity verification prior to providing mobile cellular telecommunications services. The compliance date for these sections has not yet been determined and will come into effect by presidential proclamation. RICA obligates service providers to obtain and store customer details, including names, identity numbers, residential and business or postal addresses and requires verification of customers' details with reference to a certified copy of a customer's identity document and his or her actual identity document. To date, Telkom has not been able to complete the implementation of all of these requirements, and Vodacom may not be able to implement these requirements within the time period in which it is ultimately required to implement them, which has not yet been determined. Furthermore, the implementation of RICA is expected to have significant cost implications resulting from the paper verification and storage requirements and negatively impact the ability of Telkom and Vodacom to register customers due to its burdensome registration process, which may not be practical and may require the disconnection of customers for whom such information is unavailable. As a result, Telkom's and Vodacom's business operations could be disrupted and their net profit could decline and they may be liable for penalties to the extent they are not able to comply with RICA's requirements.

In addition, commencing in June 2006, all licensees, including Telkom and Vodacom, were required to install equipment and implement procedures to allow lawful interception by law enforcement agencies in South Africa, including the interception of communications and the provisioning of call-related information, including billing information. Telkom was not able to completely comply with all of the requirements by June 2006 and was in consultation with the Office for Interception Centers and the Department of Communication to adopt a phased approach for compliance. Telkom subsequently achieved full compliance for all major technologies, including its public digital exchanges and Internet services, in the 2007 calendar year, although some implementation measures and implementation schedules remain subject to further agreement. The directives for the implementation of these requirements for private networks have not yet been finalized. To the extent that we are unable to comply with all the requirements of RICA or are unable to substantially recover these costs of compliance, our business operations could be disrupted and our net profit could decline and we may be liable for penalties.

If Telkom is required to comply with the provisions of the South African Public Finance Management Act, 1 of 1999, or PFMA, and the provisions of the South African Public Audit Act of 2004, or PAA, Telkom could incur increased expenses and its net profit could decline and compliance with the PFMA and PAA could result in the delisting of Telkom's ordinary shares and ADSs from the JSE and New York Stock Exchange.

Telkom is required to comply with the provisions of the PFMA and PAA. Telkom applied for and obtained a temporary exemption from many of the provisions of the PFMA until October 2010 and has been informed by the South African Auditor-General that it will not be required to comply with the PAA until such date. If Telkom does not obtain a further exemption from the PFMA or if it is required to comply with the PAA or its existing exemption from the PFMA is revoked for any reason or it is otherwise required to comply with the PFMA or PAA, Telkom may be compelled to prepare financial statements in accordance with accounting principles and practices prescribed by the Government of the Republic of South Africa which may not correlate with IFRS and would require Telkom to incur additional costs. Telkom would also be required to comply with, what it believes to be, extremely prescriptive treasury regulations issued pursuant to the PFMA and PAA, to provide the Government with advance access to proprietary and potentially price sensitive information and to seek the prior approval of South African governmental authorities to enter into certain material agreements, to maintain certain bank accounts, to formulate and implement certain investment strategies or to discharge its auditors, which would preclude Telkom from acting in the same manner as its competitors and other listed companies. If Telkom is required to comply with the PFMA and PAA, Telkom may not be able to comply with the Listings Requirements of the JSE or the listing rules of the NYSE and Telkom's ordinary shares and ADSs could be delisted.

Our total property tax expense could increase significantly and our net profit could decline as a result of the enactment of the South African Local Government: Municipal Property Rates Act, 6 of 2004.

On May 11, 2004, the South African Municipal Property Rates Act, 6 of 2004, was enacted. The commencement date for the Act was July 2, 2005. Pursuant to this new Act, municipalities are required to levy property tax in accordance with a rates policy that must be adopted and regularly reviewed by municipalities with community participation facilitated through the municipalities' annual budget process. Due in part to the fact that no rate policy has to date been prescribed, it is too early to assess exactly how the new Act would affect us. Certain municipalities have however already initiated consultative processes with landowners. As a substantial landowner in South Africa, our total property tax expense could increase significantly and our net profit could decline as a result of the implementation of this Act.

Risks related to the Republic of South Africa

Fluctuations in the value of the Rand and inflation rates in South Africa could have a significant impact on the amount of Telkom's dividends, the trading prices of Telkom's ordinary shares and ADSs, our operating revenue, operating expenses, net profit, capital expenditures and on the comparability of our results between financial periods.

The value of the Rand as measured against the Dollar has historically fluctuated significantly. The value of the Rand as measured against the Dollar has increased from R11.38 per U.S.\$1.00 as of March 29, 2002 to R6.15 per U.S.\$1.00 as of March 31, 2006. The value of the Rand as measured against the Dollar was R8.14 per U.S.\$1.00 as of March 31, 2008.

Fluctuations in the exchange rate between the Rand and the Dollar could have an adverse impact on:

- the Dollar equivalent of any dividends and distributions on Telkom's ordinary shares and ADSs payable in Rands;
- the Dollar equivalent of the Rand denominated prices of Telkom's ordinary shares; and
- the market value of Telkom's ADSs in the United States.

These fluctuations could also impact the amount in Rand terms of our non-Rand denominated debt, impact our non-Rand denominated financing costs and operating and capital expenditures and cause our net profit to fluctuate. In addition, the volatility of the Rand as measured against the Dollar and the Euro resulted in net foreign exchange profits of R123 million in the year ended March 31, 2006, R202 million in the year ended March 31, 2007 and of R82 million in the year ended March 31, 2008 in terms of IAS39. In addition, fluctuations in currency exchange rates between the South African Rand and the currencies in African countries where Telkom and Vodacom have investments could decrease the value of these businesses and our net profit. See Item 5. "Operating and Financial Review and Prospects – Operating Results – Principal Factors that affect our Results of Operations – Volatility of the Rand".

The levels of unemployment, poverty and crime in South Africa may cause the size of the South African communications market and our growth rates, operating revenue and net profit, as well as the trading prices of Telkom's ordinary shares and ADSs, to decline.

While South Africa features a highly developed financial and legal infrastructure at the core of its economy, levels of unemployment, poverty and crime exist. In addition, there have been a number of recent reports of unrest in many of South Africa's informal settlements. These issues may hinder investment into South Africa, prompt emigration of skilled workers and may have an impact on economic growth. Although it is difficult to predict the effect of these issues on South African businesses or the Government of the Republic of South Africa, they may cause the size of the communications market and our growth rates, operating revenue and net profit, as well as the trading prices of Telkom's ordinary shares and ADSs, to decline.

Should the country continue to experience high occurrences of power outages Telkom's operational capacity, expenses and revenues will be affected and its operating revenue and net profit could decline.

As is the case with enterprises across the country, the widespread and prolonged power outages, also known as load shedding, are affecting Telkom's operational capacity, expenses and revenues. Should high occurrences of power outages across the country continue, Telkom's business operations could be disrupted and Telkom's operating revenue and net profit could decline.

The high rates of HIV infection in South Africa could cause the size of the South African communications market and our growth rates, operating revenue and net profit to decline.

South Africa has a high rate of HIV infection. The exact impact of increased mortality rates due to AIDS deaths on the cost of doing business in South Africa and the potential growth in the economy is unclear at this time although employee related costs in South Africa are expected to increase as a result of the AIDS epidemic and the size of the South African population and the communications market could decline. Our growth rates, operating revenue and net profit could decline if employee related expenses increase or our labor supply or the size of the South African population and communications market decline.

Significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining and the cost of compliance with South African labor laws could limit our operating flexibility and disrupt our fixed-line business operations and reduce our net profit.

Trade unions represented approximately 70% of our total Telkom employees and approximately 14% of Vodacom's employees as of March 31, 2008. Less than 7% of Vodacom's employees participated in a strike action in July 2007 and picketed in March 2007 due to disagreements with Vodacom's requirement that the Communication Workers Union have representation of at least 30% of Vodacom's employees before qualifying for the right to be recognized and negotiate as a trade union. Trade unions have resisted workforce reductions and publicly opposed our proposed capability management and outsourcing plans and our privatization and have instituted and in the future could institute work stoppages to oppose changes in our employee and shareholding structure or gain leverage in negotiating collective bargaining agreements. Approximately 23% of Telkom's employees participated in a work stoppage in March 2006 and approximately 31% of Telkom's employees participated in an additional work stoppage in April 2006 with respect to compensation issues, during which period Telkom received increased reports of sabotage, vandalism and other incidents. In addition, during the course of April and May 2007, approximately 35 members of Solidarity embarked on a five day industrial action due to their dissatisfaction with the implementation of Telkom's new shift roster. In addition, a number of South African trade unions, including the trade unions of our employees, have close links to various political parties and have had a significant influence in South Africa as vehicles for social and political reform and in the collective bargaining process. Since 1995 South Africa has enacted various labor laws that enhance the rights of employees, which have imposed costs on us and have limited our flexibility and ability to implement workforce reductions.

Telkom is a party to a collective agreement on substantive matters covering the terms and conditions of employment of its fixed-line unionized employees and other non-management employees in Telkom's bargaining unit with ATU and CWU for the period from April 1, 2006 to March 31, 2009. The long term substantive agreement provides for the re-opening of negotiations in the event the consumer price index varies from the April 2006 level of 3.7% by more than 3%. Due to inflation increasing beyond this percentage, Telkom re-opened the negotiations in December 2007 and thus far, we have not managed to reach settlement. Given the rapidly deteriorating economic conditions as evidenced by an increase in the consumer price index from 7.9% in December 2007 to 11.7% in May 2008, the various Trade Union Federations especially COSATU have requested a double-digit increase. We have received a notice from CWU advising Telkom of its intention to embark on some unspecified industrial action. If we are unable to implement workforce reductions as necessary or our planned capability management and outsourcing, particularly as a result of increased competition, or experience significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining or compliance with labor laws, our business operations could be disrupted and our net profit could be reduced.

South African exchange control restrictions could hinder our ability to make foreign investments and procure foreign denominated financings.

South Africa's exchange control regulations restrict transactions between residents of the Common Monetary Area, which consists of South Africa, the Republic of Namibia, and the Kingdoms of Lesotho and Swaziland, and non-residents of the Common Monetary Area. In particular, South African companies are generally not permitted, without the prior approval of the Exchange Control authorities, to export capital from South Africa or to hold foreign currency in excess of certain prescribed limits.

These restrictions could hinder our ability to make foreign investments and obtain foreign denominated financing. While the South African Government has relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the future. See Item 10. "Additional Information – Exchange Controls."

Risks related to ownership of Telkom's ordinary shares and ADSs

The future sale of a substantial number of Telkom's ordinary shares or ADSs could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

As of June 30, 2008, Government of the Republic of South Africa owned 39.8% of Telkom's issued and 41.5% of Telkom's outstanding ordinary shares, plus the class A ordinary share, Black Ginger, a wholly owned subsidiary of the Public Investment Corporation, owned 9.0% of Telkom's issued and 9.3% of Telkom's outstanding ordinary shares, plus the class B ordinary share, the Public Investment Corporation directly owned 6.6% of Telkom's issued and 6.8% of Telkom's outstanding ordinary shares and the Elephant Consortium owned 5.9% of Telkom's issued and 6.1% of Telkom's outstanding ordinary shares. Telkom has adopted a management and employee incentive plan that provides for the issue or grant of up to 22,281,272 ordinary shares, of which 15.0 million have already been granted. Sales of substantial amounts of shares by Telkom's shareholders, or by Telkom, or the appearance that a large number of shares are available for sale, could cause the trading prices of Telkom's ordinary shares and ADSs to decline. Telkom has entered into a registration rights agreement with the Government of the Republic of South Africa. Pursuant to the agreement, the Government has the right to cause Telkom to either effect a JSE public offering in South Africa, or register with the Securities and Exchange Commission all or part of their ordinary shares, or both.

Your rights as a shareholder are governed by South African law, which differs in material respects from the rights of shareholders under the laws of other jurisdictions.

Telkom is a public limited liability company incorporated under the laws of the Republic of South Africa. The rights of holders of Telkom's ordinary shares and therefore many of the rights of Telkom's ADS holders are governed by Telkom's articles of association and by South African law. These rights differ in material respects from the rights of shareholders in companies incorporated elsewhere, such as in the United States. In particular, South African law significantly limits the circumstances under which shareholders of South African companies may institute litigation on behalf of a company. For a description of the differences between shareholders' rights under South African law and Delaware law, see Item 10. "Additional Information – Memorandum and Articles of Incorporation – Comparison of Shareholders' Rights under South African and Delaware Law".

It may not be possible for you to effect service of legal process, enforce judgments of courts outside of South Africa or bring actions based on securities laws of jurisdictions other than South Africa against Telkom or against members of its board.

Telkom and all but one of the members of its board of directors and executive officers are residents outside of the United States. In addition, Telkom's assets and the assets of members of its

board of directors and executive officers are located in whole or in substantial part outside of the United States. As a result, it may not be possible for you to effect service of legal process within the United States or elsewhere outside of the Republic of South Africa upon our directors or officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, it may not be possible for you to enforce against Telkom or the members of its board of directors and executive officers judgments obtained in courts outside South Africa, including the United States, based on the civil liability provisions of the securities laws of those countries, including those of the United States. A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action, which may be enforced by South African courts with the approval of the South African Minister of Trade and Industry. In addition, awards of punitive damages will not be enforceable in South Africa. Although it is possible for an investor to bring an action against Telkom in a South African civil court to enforce rights in terms of U.S. federal securities laws, these laws will not be enforced if they are penal or revenue or taxation laws or laws which are contrary to South African public policy. It is not possible therefore for an investor to seek to impose criminal liability on us in a South African court arising from a violation of U.S. federal securities laws.

Your ability to sell a substantial number of ordinary shares and ADSs may be restricted by the limited liquidity of ordinary shares.

The principal trading market for Telkom's ordinary shares is the JSE. In addition, as of March 31, 2008, only 2.7% of the 215,313,193 ordinary shares publicly traded were represented by ADSs trading on the NYSE. The limited liquidity of the ordinary shares and ADSs could depress the trading prices of the ordinary shares and ADSs and could limit your ability to sell a substantial number of ordinary shares or ADSs in a timely manner, especially by means of a large block trade.

Item 4. Information on the company

HISTORY AND DEVELOPMENT OF THE COMPANY

Telkom was incorporated on September 30, 1991 as a public limited liability company registered under the South African Companies Act, 61 of 1973, as amended. Telkom's registration number is 1991/005476/06. Telkom's principal executive offices are located at Telkom Towers North, 152 Proes Street, Pretoria 0002, Gauteng Province, South Africa. Telkom's telephone number is (27) (12) 311 3566 and its internet address is <http://www.telkom.co.za>. Information contained on Telkom's website is not part of this annual report.

Historical background

Prior to 1991, the former Department of Posts and Telecommunications of South Africa provided telecommunications and post office services in South Africa on an exclusive basis. In 1991, the Government of South Africa transferred the entire telecommunications enterprise of the Department of Posts and Telecommunications of South Africa to a new entity, Telkom, as part of a commercialization process intended to liberalize certain sectors of South Africa's economy. Telkom remained a wholly state owned enterprise until May 14, 1997, when the Government of South Africa sold a 30% equity interest in Telkom to Thintana Communications LLC, a strategic equity investor beneficially owned by SBC Communications, Inc. and Telekom Malaysia S.D.N. Berhard. On March 7, 2003, we completed our initial public offering and listing on the JSE and NYSE, pursuant to which the Government of South Africa sold a total of 154,199,467 ordinary shares, including 14,941,513 ordinary shares through the exercise of an over-allotment option.

Recent developments

Non-binding proposals received

Telkom has made a decision to invest in the build out of a fixed-wireless and mobile data network. Telkom is currently limited in its ability to pursue or provide full mobile services in South Africa and sub-Saharan Africa by the provisions of the Vodacom joint venture agreement with Vodafone. On May 30, 2008, Telkom received a non binding proposal by a wholly owned subsidiary of Vodafone to acquire a portion of Telkom's stake in Vodacom, subject to, among other things, Telkom distributing its remaining stake in Vodacom to Telkom's shareholders.

Separately, on May 30, 2008, Telkom received a letter from a consortium comprising Mvelaphanda Holdings (Proprietary) Limited, affiliated funds of Och-Ziff Capital Management Group and other strategic investors stating that the consortium was considering making an offer for the entire issued share capital of Telkom subject to a number of conditions, including, among other things, confirmation by the Telkom board that Telkom would unbundle its entire 50% stake in Vodacom as part of the offer.

The discussions with Vodafone commenced on May 14, 2008 and are independent from the approach received from the consortium. On June 2, 2008 Telkom issued a cautionary statement regarding these developments and on July 15, 2008, Telkom issued a further cautionary statement that its discussions with Vodafone and independently with the consortium are still ongoing and shareholders are advised to continue to exercise caution when dealing in Telkom securities. Telkom's board does not intend to consider disposing of Telkom or any of its subsidiaries, joint venture or assets without compelling strategic rationale. There can be no assurance that Telkom will ultimately elect to divest of its interest in Vodacom or the structure or the ultimate value to Telkom and its shareholders of its Vodacom interest, or that Telkom's mobile strategy will change or that it will be successful in pursuing any new mobile opportunities.

See Item 3. "Key Information – Risk Factors – Risks related to our business – Any changes to Telkom's mobile strategy and its inability to successfully implement such strategy and organizational changes thereto, could cause our growth rates, operating revenue, net profit and dividends to decline."

Senior management

With effect from November 1, 2007, Telkom revised its top management structure to align the structure to better match its current business needs. The revised structure is designed to facilitate faster decision-making and more effective execution, smoother integration of various operating entities, and ensure that multi-national and wholesale customers are better served through appropriate channels. On November 22, 2007, the board announced the appointment of Reuben September as chief executive officer. In appointing the chief executive officer, the board followed a rigorous evaluation process including international benchmarking and consultation with the Department of Communications, the latter a requirement specified by Telkom's articles of association. In addition, on November 1, 2007, Motlatsi Nzeku was appointed as chief of operations, Thami Msimango was appointed as chief of global operations and subsidiaries, Charlotte Mokoena was appointed as chief of human resources and Ouma Rasethaba was appointed as chief of corporate governance. Deon Fredericks was appointed acting chief of finance on November 1, 2007 and Naas Fourie was appointed as chief of strategy on April 1, 2008.

In June 2008, Alan Knott Craig announced his decision to step down as chief executive officer of the Vodacom Group effective from September 30, 2008. He is expected to remain as consulting chief executive officer until the end of the 2009 financial year. Mr. Pieter Uys has been appointed chief executive officer of the Vodacom Group effective October 1, 2008. At the end of the 2008 financial year, Leon Crouse ended his term as chief financial officer of the Vodacom Group. Johan van der Watt is currently acting as chief financial officer of the Vodacom Group.

Liberalization of South African communications market

For a discussion of the changes in the regulatory environment see Item 4. "Regulation and License Requirements."

Segmental reporting

As of the beginning of the year the Telkom Group added a new segment to its financial reporting, the other segment. The Telkom Group's three reporting segments are fixed-line, mobile and other. The other segment includes Telkom's newly acquired Multi-Links and Africa Online subsidiaries, as well as Telkom Media. It also includes TDS Directory Operations and Swiftnet, which were previously included in the Telkom Group's fixed-line segment. The information in this annual report has been updated to reflect the above changes to Telkom's reporting segments.

Acquisitions and investments

Acquisition of Africa Online

On February 23, 2007, Telkom acquired 100% of the issued share capital of Africa Online from African Lakes Corporation for a total cost of R150 million. Africa Online is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Africa Online's strategy will focus on brand development, creation and development of customer channels, improvement of network systems, human resources development and an expansion drive targeting other African countries.

Acquisition of 75% stake in Multi-Links

With effect from May 1, 2007, Telkom acquired 75% of Multi-Links Telecommunications Limited, or Multi-Links, in Nigeria through Telkom International, a wholly owned South African subsidiary, for U.S.\$280 million, or R1,985 million. Multi-Links is a private telecommunications operator with a Unified Access License allowing fixed, mobile, data, long distance and international telecommunications services focused primarily on corporate clients in Nigeria. Multi-Links strategy will focus on brand awareness and promotional campaigns to increase the revenue of

fixed-wireless and mobile customers and will seek to offer easy to understand high value bundles, differentiated on voice quality and service. Broadband internet with internet service provider services will target high value bundles. High quality internet protocol next generation network services are planned to be deployed in Lagos to attract high end corporate users and carrier class wholesale products and services are planned to be introduced by establishing an earth station to provide international connectivity. The remaining 25% of Multi-Links is owned by Kenston Investment Limited, an investment company based in the Isle of Man in the United Kingdom.

Telkom Media

Telkom recently launched Telkom Media (Proprietary) Limited, a private company that intends to have a 30% black economic empowerment shareholding, in addition to the Telkom BEE component, which on August 31, 2006 applied to ICASA for a commercial satellite and cable subscription broadcast license. From May 28 to June 12, 2007 ICASA held public hearings into the applications by 18 applicants for a satellite and cable subscription broadcast license. On September 12, 2007, ICASA granted Telkom Media a commercial satellite and cable subscription broadcast license, the issuance of which is subject to the negotiation and satisfaction of certain conditions, including the approval and finalization of the BEE component. We cannot assure you that Telkom Media will receive this license from ICASA or be able to launch commercial operations.

Partners in the black economic empowerment entity are Videovision Entertainment, MSG Afrika Media and WDB Investment Holdings (Proprietary) Limited.

Telkom recently announced its decision to substantially reduce its investment in Telkom Media, in which it had invested R326 million up to March 31, 2008, and was required to provide an impairment provision of R217 million. Telkom will be investigating all opportunities to do this in the best interest of Telkom shareholders and all other stakeholders. Telkom confirms it has received proposals relating to Telkom's announced intention to substantially reduce its stake in Telkom Media. No decision has been made to date and Telkom is currently reviewing the proposals and anticipates making a decision in the near future.

Vodacom's acquisitions and dispositions

Service provider acquisitions

On August 31, 2007, Vodacom purchased an additional 30% shareholding in Smartphone SP (Proprietary) Limited, or Smartphone, for R935.0 million, with goodwill amounting to R931.2 million, increasing its shareholding from 70% to 100%.

On September 1, 2007, Vodacom increased its interest in the equity of Smartcom (Proprietary) Limited, or Smartcom, to 100% by acquiring an additional 12% for R18.0 million, with goodwill amounting to R18.0 million.

Subsequent to the above acquisitions, the operations of Smartphone, Smartcom and Cointel V.A.S. (Proprietary) Limited were integrated into the operations of Vodacom Service Provider Company (Proprietary) Limited.

Vodacom Ventures (Proprietary) Limited

Vodacom Ventures (Proprietary) Limited, or Vodacom Ventures, was formed for the purpose of generating innovative telecommunications products and services for Vodacom by investing in companies. In September 2007, Vodacom Ventures acquired an additional 16% equity stake in G-Mobile Holdings Limited, a Wi-Fi corporation, by exercising its call option, resulting in Vodacom Ventures holding 26% of the aggregate issued share capital of G-Mobile Holdings Limited. During November 2007, Vodacom Ventures acquired a 35% stake in Xlink Communications (Proprietary) Limited, a value added service provider of wireless data transfer systems and services using GPRS, EDGE, 3G and HSDPA.

Dispositions

On September 3, 2007, Vodacom disposed of its 100% interest in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited for R16 million.

Vodacom's black economic empowerment, or BEE, equity deal

Vodacom is in the process of finalizing a R7.5 billion BEE equity deal for an interest of less than 10% in Vodacom South Africa, whereby 30% of the BEE shares are expected to be made available to black South Africans and Vodacom's black business partners in a public share offer that will specifically be targeted at low-income groups. Vodacom staff are expected to take up a further 25% and the remaining 45% is expected to be taken up by two BEE strategic partners. Vodacom announced that it had selected Thebe Investment Corporation (Pty) Ltd and Royal Bafokeng Holdings (Pty) Ltd as preferred parties and signed transaction agreements with these two parties on June 26, 2008. In June 2008, Tiger Consortium, one of the losing bidders filed a court interdict against Vodacom. On June 6, 2008, the application was dismissed by the South Africa High Court without decision on the merits and ordered costs payable for Vodacom's counsel. If the Tiger Consortium wish to proceed with this matter further, it would be required to pay these costs and provide security for future costs. While Telkom has announced that it supports a BEE deal, the final terms are in the process of being approved by Vodafone and Telkom. Vodacom is expected to announce the details of the broad-based black economic empowerment transaction in the third quarter of 2008.

Vodacom's change in South African prepaid customer base

Vodacom's South African operations define active customers as customers with a SIM card that have revenue generating activity in the three months leading up to the reporting date. Up to June 15, 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. An analysis of the customer base, based on a statistical sampling, has revealed that a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity and a majority of such messages are never retrieved by the customer, resulting in estimated ARPU's of less than R1 per month.

As a result, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue activity effective June 15, 2006. Vodacom deleted approximately 3 million customers during the period of this rule change. As a result of the rule change, prepaid churn and ARPU increased during the 2007 financial year.

Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards were disconnected from the network after being inactive for a 215 consecutive day period. Since implementing this change, prepaid SIM cards remaining in an active state on the network, with only call forwarding to voicemail and no other revenue generating activities, increased significantly. Vodacom therefore implemented a supplementary disconnection rule in September 2007 to disconnect inactive prepaid SIM cards after 13 months of being kept in an active state, by call forwarding to voicemail only, and not having had any other revenue generating activity on Vodacom's network. The implementation of the supplementary disconnection rule led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007, increasing churn on the prepaid customer base to 47.9% in the 2008 financial year and resulted in higher prepaid ARPU than would have otherwise occurred.

Vodacom Business

During the 2007 financial year, Vodacom created Vodacom Converged Solutions, which was intended to become a significant supplier of converged information, communications and technology services across the entire market, including the bundling of products across previously separate

markets into a one-stop-shop for the customer. It further involved the expansion of the existing network to provide both fiber and wireless solutions as may be required.

During the 2008 financial year, Vodacom restructured Vodacom Converged Solutions and renamed it Vodacom Business. Vodacom Business was established to provide converged solutions and services to corporate customers. The strategic aim of the division is to play a role in the broadband access services space, capitalize on transmission and self-provisioning opportunities, grow revenue through managed services opportunities and enhance the retention of corporate clients. The intention is to gain market traction and a customer base while developing a next generation network. Vodacom Business developed a service portfolio that includes next-generation internet protocol voice services, managed networks and infrastructure services, access services, hosting and applications. The platforms, systems and organization have been created and the initial commercial products are being marketed, with the balance of the service portfolio expected to become available online during the course of the 2008 calendar year.

Vodacom agreement with MultiChoice

On May 8, 2007 Vodacom formalized entry into the broadcasting and multimedia market by announcing that it had secured an exclusive pay TV agency agreement with MultiChoice. With DStv Select, Vodacom and non-Vodacom customers have a choice between two DStv Select bouquets, each offering a variety of the latest entertainment, news, sport, movies, documentaries and music channels. Vodacom had approximately 31,000 Unique Mobile TV users as of March 31, 2008, compared to approximately 33,000 Unique Mobile TV users as of March 31, 2007.

BUSINESS OVERVIEW

Business summary

Telkom is one of the largest companies registered in South Africa and one of the largest communications services providers on the African continent based on operating revenue and assets. We had consolidated operating revenue of R56.3 billion (\$6.9 billion), profit for the year attributable to the equity holders of Telkom of R8.0 billion (\$981 million) and cash flow from operating activities of R10.6 billion (\$1.3 billion) in the year ended March 31, 2008 and we had total assets of R70.4 billion (\$8.6 billion) and equity attributable to the equity holders of Telkom of R32.8 billion (\$4.0 billion) as of March 31, 2008. As of March 31, 2008, we had approximately 4.5 million telephone access lines in service and 99.9% of our telephone access lines were connected to digital exchanges. We offer business, residential and payphone customers a wide range of services and products, including:

- *fixed-line voice services*, including subscriptions and connections services, local, long distance, fixed-to-mobile and international voice services, interconnection and hubbing communications services, international voice over internet protocol services, subscription based value-added voice services and customer premises equipment rental and sales;
- *fixed-line data services*, including domestic and international data transmission services, such as point to point leased lines, ADSL services and packet-based services, managed data networking services and internet access and related information technology services;
- *mobile communications services*, including voice services, data services, value-added services and handset sales through Vodacom, our 50% joint venture with Vodafone; and
- *other services*, including directory services, through our TDS Directory Operations Group, fixed, mobile, data and international communications services in Nigeria through our newly acquired Multi-Links subsidiary, internet services outside South Africa, through our Africa Online subsidiary, and wireless data services through our Swiftnet subsidiary.

Vodacom is our mobile communications joint venture with Vodafone. Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 55% as of March 31, 2008 based on total estimated customers. Vodacom had 34.0 million customers as of March 31, 2008, of which 24.8 million were in South Africa. Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. Vodacom had consolidated revenue of R48.2 billion (\$5.9 billion), net profit attributable to equity shareholders of R7.8 billion (\$960 million) and cash flow from operating activities of R5.1 billion (\$630 million) in the year ended March 31, 2008 and total assets of R34.2 billion (\$4.2 billion) and equity attributable to equity holders of Vodacom of R11.4 billion (\$1.4 billion) as of March 31, 2008.

Our competitive strengths

We believe that we are well-positioned to strengthen our business and successfully meet future competition based on the following:

We have the leading market position and are well placed to face increased competition in the South African fixed-line communications market.

We believe our leading market position and our strong brand recognition will enable us to successfully meet increased competition in the fixed-line communications market. Key to maintaining our leading market position is our continued focus on developing innovative product offerings in anticipation of client needs, efficiency improvements, deployment of key technologies and the successful implementation of our business strategy.

We have undertaken the following actions to ensure we retain our position:

- focused our marketing initiatives on creating greater awareness of our range of consumer products and business solutions to ensure that our customers continue to view us as a competitive and innovative telecommunications provider that caters to their individual needs;
- organized our sales and marketing force into more specialized divisions to focus on the different customer segments in South Africa;
- entered into long term contracts with a number of our larger corporate and business customers through volume and term discount plans;
- developed well established distribution channels such as TelkomDirect and Vodashop distribution channels and improved our online distribution channel, which offers fully automated purchasing and provisioning of TelkomInternet via the telkomsa.net website;
- improved the value proposition to our customers by launching new bundled packages such as Do Broadband to strengthen our leadership position in broadband and enhancing existing packages such as Telkom Closer and SupremeCall and also launched Do Education towards the latter part of the 2008 financial year to further enhance its Do Broadband value proposition; and
- broadened our enterprise product portfolio by launching among other Dual Mail, a push to email solution, Easy VPN and VPN Lite, a VPN solution for SMMEs, MetroLan, high speed ethernet metropolitan area network connectivity, desktop support services and hosted interactive voice response applications.

We have a fully digital fixed-line network that provides service to every major urban area in South Africa.

We believe our extensive digital fixed-line network places us in a strong position to compete with new providers of communications services as it enables us to sell value-added voice and data services. We have:

- modernized our fixed-line network, and, as of March 31, 2008, had 99.9% of our telephone access lines connected to digital exchanges;
- modernized and enhanced our fixed-line network's resiliency and performance through the deployment of synchronous digital hierarchy managed self-healing optical fiber rings and by increasing our use of optical fiber;
- deployed a national network operations center with the ability to proactively monitor our network and offer managed data networking services to global and corporate customers;
- deployed a national business solution center alongside our national network operations center and our data center which provides Telkom with a centralized information technology backbone;
- entered into a supply contract for the development of the EASSy submarine cable system, which will link eight countries from Sudan to South Africa, connecting the Eastern African seaboard as well as landlocked countries, to the rest of the world and providing connectivity across the continent to support the increase in local traffic for existing and new broadband services;
- invested in a third upgrade of the South Atlantic Telecommunications Cable-3/West African Submarine Cable/South Africa Far East, or SAT-3/WASC/SAFE, submarine cable system, which provides increased fiber optic transmission capability between South Africa and international destinations;
- invested in the Europe – India Gateway cable system that is expected to provide Telkom with very cost effective onward connectivity for the SAT-3/WASC/SAFE and EASSy cables;
- enhanced our core and access network to meet increased demand for broadband services such as xDSL;
- supplemented our fixed-line access network with point to multipoint wireless access, WiFi and WiMAX;
- evolved our intelligent network service platform capabilities to meet customer demand by installing an open services platform that will provide value added services across Telkom's voice network;
- evolved our internet protocol network to a carrier class multi protocol label switching, or MPLS, enabled network with quality of service that supports enhanced services such as internet protocol and virtual private networks; and
- acquired satellite bandwidth available from Intelsat in the Atlantic and Indian Ocean regions. Telkom also has access to satellite capacity from 64 Kbps to 45 Mbps upon request. We are currently making use of satellites in 15 orbital slots for servicing with and from or to South Africa. Our satellite capabilities and capacity ensure redundancy in our network and will enable us to maximize opportunities with internet service provider services through Africa Online.

We are an integrated communications service provider offering bundled voice, data, broadband and internet services and mobile services through Vodacom with the expertise to expand our service offerings.

Our network and resources enable us to provide customers with a wide range of integrated communications services, including voice services, data communications services, broadband services and internet services and mobile services through Vodacom. We have undertaken the following actions to strengthen our data communications service capabilities and improve our integrated communications service offerings:

- successfully launched ISDN in 1995, ADSL in August 2002, VPN Supreme in 2003, WiFi in 2005 and MetroLan, local area networks in metropolitan areas in March 2008 and have introduced several flexible and cost effective options for these products;

- developed extensive experience in designing and operating customized data communications and managed data networking products and services, including managed local and wide area networks;
- established contracts with a number of leading communications equipment and software suppliers such as Amdocs, MDSI, Ericsson, Alcatel-Lucent, Nokia-Siemens, Tellabs, Cisco Systems, Gilat; SAAB-Grintek, 2C Telecommunications, CBI-Electric, Aberdare ATC Telecommunications, Malesela Taihan Electric Cable and Sun Microsystems to provide fully integrated communications solutions over our core fixed-line network and satellite capacity and have introduced several flexible and cost effective options for these products;
- deployed an extensive voice-over-internet protocol, or VoIP, network, and launched a voice over internet protocol regional clearing house to serve as a hub for voice traffic on the African continent;
- successfully introduced a full range of private branch exchange, or PABX, systems sourced from LG Electronics, Siemens and Cisco, with the capability to integrate with IP and DSL technologies;
- we are able to offer our customers advanced mobile solutions, including voice and data, through Vodacom; and
- obtained access to portions of the 350 MHz, 3.5 GHz, 26 GHz and 38 GHz radio frequency bands and were assigned radio frequency spectrum licenses for both the 1800 MHz and 2100 MHz (3G) radio frequency bands.

We have a highly qualified management team.

We believe our management team and employees have the required experience and knowledge to execute our business strategy in the face of increased competition. Rapidly changing technology, increasing specialization requirements and capacity gaps necessitate ongoing development and training. Telkom continues to invest significantly in its employees to ensure that the appropriate business skills in the communications industry are available to meet customer requirements. Telkom has developed detailed plans to identify high potential individuals within the company who can be developed for future senior management positions to ensure all future employee requirements are met. Telkom has demonstrated the strength of its succession and retention plans by appointing approximately 69% of senior management vacancies, including all of its current chief officers, from within the company, utilizing the existing skills and potential of its current employee base.

Vodacom is the leading South African mobile communications network operator with strong brand recognition, extensive network coverage and distribution channels and a growing data product offering.

Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 55% as of March 31, 2008 based on total estimated customers. Vodacom has an extensive network that covers approximately 98% of South Africa's population based on the last official census conducted in 2001 and approximately 72% of the total land surface area of South Africa as of March 31, 2008. Vodacom has a broad distribution network consisting of Vodacom owned shops and sales forces and independent dealers, franchises, national chains and Vodacom Direct shops as well as an extensive informal distribution channel servicing primarily the emerging market. Vodacom continues to enjoy success through its data initiatives, with data revenue contributing 10.4% in the 2008 financial year. Vodacom will seek to grow its revenue in South Africa by launching and expanding a range of non-traditional mobile products and services in areas such as telemetry, media and entertainment, and financial services.

Vodacom is leveraging its successful experience in sub-Saharan South Africa to grow revenue by providing converged infrastructure and services in its five existing countries of operation and, to the extent available, by selectively acquiring additional communications licenses or operators in other African markets.

Vodacom intends to increase revenue by continuing to grow its existing operations in sub-Saharan Africa through converged infrastructure and services and, to the extent available, by selectively acquiring additional communications licenses or operators in other African markets. Vodacom is developing infrastructure, initially in South Africa, that will enable it to deliver end-to-end converged solutions extending from mobile to fixed line voice and data, managed data networks, voice over internet protocol solutions, hosted facilities and applications and security and managed hosting solutions. Vodacom is continuing to pursue future growth through selected mobile expansion initiatives in other African markets. Investments outside of South Africa are evaluated and monitored against key investment criteria, focusing primarily on countries with stable economic and political conditions, low penetration and good prospects for growth, market leadership and profitability. Other key factors include Vodacom's ability to gain majority ownership, develop strong local partnership relationships and obtain non-recourse financing. Other African operations are branded under the "Vodacom" name. Vodacom is also considering entering new markets by seeking out alternative entry strategies such as through management and technical service agreements and acquiring non-traditional GSM operators such as internet service providers and other telecommunications service providers.

Vodacom benefits from an experienced management team complemented by its experienced international and local shareholders, Vodafone and Telkom.

Vodacom has an experienced management team with a record of innovation as the first commercial 3G network operator in South Africa, the first mobile communications network operator in the world to offer prepaid mobile communications services on an intelligent network platform and to offer its customers coverage across the whole of Africa where commercial roaming based on the Global System for Mobile, or GSM, communications technology is available. Vodacom was also the first South African mobile communications network operator to provide nationwide coverage in South Africa. Alan Knott Craig, who announced his decision to step down as chief executive officer of the Vodacom Group effective from September 30, 2008, has agreed to remain as consulting chief executive officer until the end of the 2009 financial year in order to provide continuity to Vodacom Group and ensure that a qualified successor is appointed.

Vodacom benefits from the financial, operational and managerial expertise of its shareholders, Vodafone and Telkom. Vodacom has an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services, such as the Vodafone Mobile Connect Card, Vodafone live!, Mobile TV, BlackBerry®, and Vodafone Simply. Vodacom's alliance with Vodafone also provides Vodacom access to Vodafone's global research and development, and access to Vodafone's marketing and buying powers.

Our group strategy

We will seek to differentiate ourselves from competitors by moving from a provider of basic voice and data connectivity to become Africa's preferred information, communications and technology service provider, offering fully converged voice, data, video and Internet services. Our core strategy is to defend and grow profitable revenue, while managing costs. We will seek to defend profitable revenue by providing superior, customized solutions that meet the needs of consumer, business and wholesale customers. We will pursue growth of profitable revenue through fixed-wireless and mobile data services, broadband services and converged services both in South Africa and internationally. We will seek to grow both organically as well as through partnerships and acquisitions, while managing costs through our capability management initiative designed to realign our structure,

employees and resources to better match our transforming information, communications and technology business.

Defend profitable revenue

Our primary objectives in defending profitable revenue are to:

- Maintain fixed-line net revenue.
- Retain our leading fixed-line market share.
- Increase annuity revenue as a percentage of total fixed-line operating revenue.

We will seek to defend profitable revenue by:

- Improving our competitiveness in areas where competition is expected to intensify through tariff rebalancing in order to maintain fixed-line net revenue and retain our leading fixed-line market share. Pricing is a key element of this strategy. Our tariff rebalancing will primarily focus on the relationship between the actual costs and tariffs of line rentals and traffic in order to more accurately reflect underlying costs and better compete in a liberalized communications market. We will seek to protect our margins in response to increased competition. We have reduced long distance call unit tariffs an average of 10% effective August 1, 2006 and by another 10% effective August 1, 2007, while increasing line rental an average of 8% effective August 1, 2006 and 12% effective August 1, 2007. We are also seeking to rebalance long distance and local call unit tariffs to decrease arbitrage opportunities on call charges. In addition, we have reduced overall data tariffs with 9% effective August 1, 2006 and 11.9% effective August 1, 2007 to better align with costs, especially on International Private Leased Circuits and will seek opportunities for further tariff rebalancing. We also intend to increase per-second billing benefits as part of our bundled packages.
- Building customer retention (resistance to switch) through initiatives that entice customers to stay with Telkom in order to maintain fixed-line net revenue and retain our leading fixed-line market share. We will focus on customer centricity to combat churn and encourage retention by implementing value and needs-based customer segmentation and better customer value and portfolio management. In addition, we will seek to foster long-term relationships with enterprise and wholesale customers through volume and term agreements. During the 2008 financial year, we established a customer data environment that provides Telkom with a holistic view of the customer to enable better customer segmentation based on value, behavior and needs. We will also seek to implement process improvements in order to improve service delivery. As a result of initiatives implemented in the 2008 financial year, the percentage ADSL faults cleared within 24 hours improved from 33% in the 2007 financial year to 42% in the 2008 financial year.
- Building customer loyalty by providing superior value propositions that position Telkom as the service provider of choice in order to maintain fixed-line net revenue and retain our leading fixed-line market share. Constant innovation of products and services will be pursued to re-vitalize Telkom's image and reputation. We will seek to improve communication with customers and ensure that they are informed about Telkom and its products.
- Converting revenue streams to annuity revenue. We will seek to continue to protect our voice revenue from fixed-to-mobile substitution and against voice over internet protocol providers by bundling call minutes with access line rental in an attractive subscription-based value proposition to deliver greater value to our customers. We will continue to enhance annuity-based calling plans and bundles, including Telkom Closer, which is targeted at the residential customer and offers line rental, preferential rates for international outgoing calls, pure per-second billing for fixed-to-mobile calls and free minutes in selected options. In the 2008 financial year, we enrolled 184,822 customers in Telkom Closer calling plans, thereby

converting 30% of residential subscribers to annuity-based calling plans. Our SupremeCall calling plan offers pure per-second billing on all outgoing calls and is targeted at the small, medium and large business customers. We grew our SupremeCall calling plan by 149.2% to 12,916 customers in the 2008 financial year.

Grow profitable revenue through fixed-wireless and mobile data services

We will seek to grow profitable revenue through fixed-wireless and mobile data services by providing an integrated bundled offering with superior speeds and quality through our fixed-line network, combined with mobility when required by customers, by:

- Transforming our fixed-line business to incorporate key value-added services, including fixed-mobile converged voice services.
- Building a fixed-wireless and mobile data network in selected areas that utilizes less vulnerable access technologies, reducing copper theft, and improved service levels in order to retain customers. We will also seek to enter into roaming and other arrangements where economical in those areas where we choose not to build our own network. We will seek to leverage our well established relationships with our corporate customers and as the provider of the local mobile backbone network, believe we are ideally positioned to offer a full range of products and services. We are aiming to launch services in the 2009 financial year. In order to implement this strategy, we have obtained access to the 1800 MHz and 2100 MHz spectrum bands. We have elected to pursue our fixed-wireless and mobile data services utilizing CDMA technology, which we believe is less costly to roll-out than GSM technology, will complement our Multi-Links CDMA network and other CDMA networks in Africa and will enable us to scale up our service offering as demand and mobile opportunities permit. We have accordingly appointed Huawei for the deployment of W-CDMA technology. We do not intend to recreate a national mobile backbone in South Africa, but instead will seek to focus on higher margin areas and will seek to take advantage of emerging technologies that enable roaming across networks utilizing different mobile technologies. Through this network, we will seek to offer:
 - wireless access in campus environments, gated communities, security complexes and other developments in order to speed up service provisioning and provide cost-effective services.
 - mobile data services in niche markets, including temporary or complementary links to fixed-broadband connections and expansion of our Do Broadband service to Do Mobile Broadband.
 - fixed/nomadic voice services, which encompasses the provisioning of a fixed-wireless network, but does not allow cell to cell handover.

We believe that having a coherent, integrated and synergistic fixed-mobile capability will enhance our ability to successfully partner with others where synergistic opportunities exist and make acquisitions in order to compete locally and internationally.

Grow profitable revenue through broadband and converged services

We will seek to grow profitable revenue in our broadband and converged services areas by:

- Increasing broadband revenues in our retail and wholesale businesses. In our retail business, we will seek to increase broadband penetration with a target penetration of at least 20% of our fixed-lines. We are aggressively expanding our broadband footprint, increasing the bandwidth in order to offer and host higher bandwidth applications, such as video services. Our ADSL offering is enhanced with a value added portal through which our customers have access to a host of broadband value added services. As a result, we increased the number of ADSL subscribers by 61.2% from 255,633 as of March 31, 2007 to 412,190 as of March 31, 2008, resulting in broadband penetration of 9.1% of fixed lines as of March 31, 2008. Furthermore,

managed data network services revenue has increased by 36.2% from R534.7 million in the 2007 financial year to R728.5 million in the 2008 financial year as a result of the 14.8% growth of managed network sites from 21,879 as of March 31, 2007 to 25,112 as of March 31, 2008. In order to leverage ADSL access, we launched VPN Lite to retail customers in the 2008 financial year. Our VPN Lite product includes an advanced self-help and online charging solution. Our VPN products have gained increasing traction in the market by catering to increased data usage and demand for converged services and we have increased our VPN sites by 58.0% to 12,741 as of March 31, 2008. We intend to launch several new products and services in the 2009 financial year, including voice over broadband and hosted internet protocol multimedia contact centers, as well as next generation services.

We are also seeking to increase wholesale broadband revenues. The growth in traffic on mobile networks has stimulated the demand for leased lines, the revenue from which has grown by 11.1% from R1.7 billion in the 2007 financial year to R1.8 billion in the 2008 financial year. To enable our wholesale customers to resell ADSL access, we launched a new wholesale ADSL resell service in the 2008 financial year. In the 2009 financial year, we expect to launch wholesale ethernet services, as well as next generation Diginet and SDH services.

- Continuing to increase converged services revenue, including from information technology, internet service provider, data and storage center, content and managed services. We will seek to increase average annual revenue per line by providing converged information, communications and technology solutions to the enterprise market and enabling the digital home in the consumer market. We are focusing our efforts on service differentiation through enhanced value packages and bundles according to customer requirements, while ensuring improved service delivery and assurance. We intend to launch several new products enabled by the deployment of our next generation network, including next generation voice, data and converged offerings.
- Pursuing partnerships with content providers to enhance our offerings in the consumer market. Our content strategy is to enable the bundling of content to provide added value in a variety of subscription and pay-as-you-go models. Specifically, we will seek to increase sales of our broadband offering by providing customers with rich media content through our Do Broadband portal, which bundles ADSL access and a TelkomInternet account at discounted prices.
- Aggressively seeking to improve our market share in the information technology services sector over the next five years by aiming to take advantage of opportunities offered by information, communications and technology convergence and targeting the medium to large business segment to meet their demand for end-to-end solutions. We believe our network management capabilities put us in a strong position to deliver data and value added managed services at speeds and quality levels superior to our competitors. Several products, including Metro LAN, have been introduced to strengthen our data communications service capabilities and improve our integrated communications service offerings in response to increased demand for higher bandwidth in the corporate and global segment.
- Seeking to expand our domestic data center operations both organically and through international acquisitions. We will seek to stimulate the use of bandwidth over our network through our data center business and believe we are well positioned as we already offer basic data services, as well as managed WAN/VPN and LAN services. In addition, through the convergence of information technology and telecommunications, we are seeking to satisfy customer demand for one-stop solutions for their communications and information technology infrastructure requirements. Our data center strategy will be designed to provide customers a more cost effective solution, while enabling us to capitalize on a high margin growth opportunity.

- Endeavoring to improve our innovation capability and aid product innovation through access to new technology, service and business models in global markets. We intend to partner with venture capital partners where opportunities exist to invest in promising global technologies, as well as media and telecommunication developments that we can deploy in our markets.

Grow profitable revenue internationally

We will seek to grow profitable revenue internationally by:

- Increasing revenue from international investments and services. We will seek to become a Pan-African integrated service provider that offers international communications and internet connectivity, hosting and managed data services and wireless voice and mobile broadband solutions. Over the long-term, we will seek to provide international data connectivity to major cities in Africa through regional hubs, such as Nigeria and South Africa. We intend to establish a management services company to complement our geographic expansion strategy.
- Increasing international revenue from our newly acquired Africa Online and Multi-Links subsidiaries. In February 2007, we acquired full control of Africa Online, an internet service provider in Africa, and effective May 1, 2007, we acquired a 75% interest in Multi-Links, a provider of fixed, mobile, long distance and international communications services throughout Nigeria. We will seek to leverage synergies across the Telkom Group to grow revenue from these subsidiaries both organically and through acquisitions. Through Multi-Links, we will seek to introduce converged fixed and mobile services into the Nigerian market. Multi-Links' subscriber base increased 210% from 262,431 as of September 30, 2007 to 813,392 as of March 31, 2008 and increased to more than 1,000,000 shortly thereafter. We will seek to expand Africa Online to become a truly Pan-African internet service provider. Africa Online will seek to optimize synergies with Telkom, focusing on market expansion in order increase its revenue in its corporate and multi-national markets as well as from wireless broadband internet access. We will also seek to leverage Telkom's available international capacity to deploy satellite-based internet access through Africa Online. In addition, Africa Online is expected to be the vehicle through which Telkom will deliver internet services outside of South Africa. Africa Online had 14,393 subscribers as of March 31, 2008. Africa Online currently operates in nine countries and will seek to expand and grow its presence to 15 countries throughout Africa.

Managing costs through our capability management initiative

We will seek to manage costs by realigning our structure, employees and resources to better match our transforming information, communications and technology business and improve customer service. The transformation of the communications industry and increasing market and competitive pressure has put communications companies such as Telkom under increasing revenue and expense constraints while requiring improved customer service. As a result, we have launched a capability management initiative designed to ensure that the capabilities needed to succeed in a converged communications market are established through the optimal utilization of external as well as internal capabilities, extracting efficiencies where possible through scale of a rapidly maturing retail and wholesale market and better organizing functional areas in a more deregulated and liberalized communications market. Our capability management initiative includes the internal consolidation of certain functional areas and the selection of strategic long term partners with proven performance for other functional areas. The following areas are expected to be impacted: call center operations, ancillary services, network service providers, network field operations, network core operations, information technology operations and retail outlets.

Capitalize on the growing mobile communications and internet service provider markets in South Africa and other African markets

Telkom has made a decision to invest in the build out of a fixed-wireless and mobile data network. Telkom is currently limited in its ability to pursue or provide full mobile services in South Africa and sub-Saharan Africa by the provisions of the Vodacom joint venture agreement with Vodafone. On June 2, 2008 Telkom issued a cautionary announcement regarding its receipt of a non binding proposal by a wholly-owned subsidiary of Vodafone to acquire a portion of Telkom's stake in Vodacom, subject to, among other things, Telkom distributing its remaining stake in Vodacom to Telkom's shareholders. On June 2, 2008 Telkom issued a cautionary statement regarding these developments and on July 15, 2008, Telkom issued a further cautionary announcement that its discussions with Vodafone and independently with the Mvelaphanda Holdings (Proprietary) Limited consortium are still ongoing and shareholders are advised to continue to exercise caution when dealing in Telkom securities. Telkom's board does not intend to consider disposing of Telkom or any of its subsidiaries, joint ventures or assets without compelling strategic rationale. There can be no assurance that Telkom will ultimately elect to divest of its interest in Vodacom or the structure or the ultimate value to Telkom and its shareholders of its Vodacom interest, or that Telkom's mobile strategy will change or that it will be successful in pursuing any new mobile opportunities.

Vodacom's strategic objectives are to achieve sustainable growth in profits and cash flow by maintaining its leadership position in the mobile voice and data space while seeking out new innovative horizontal and vertical revenue expansion. In order to achieve these objectives, Vodacom intends to pursue the following strategies:

- *Continue to maintain its leadership position in its core mobile voice and data business.* Vodacom will continue to strive for growth in profits by seeking out new innovative products and services to retain its customer base and grow average revenue per user from such customers. Vodacom will also seek to control its cost base so as to gain greater economies of scale and maximize longer term use of its assets and investments. Vodacom continued to invest in customer service in order to maintain its leading position and completed a sixth customer care call center, built at a cost of R116 million in the Johannesburg central business district. Two more walk-in customer care centers were completed in major shopping malls in Gauteng. A sizeable investment was also made in training advanced data specialists that have been deployed at our customer care centers nationally to answer data related queries.
- *Seek out new horizontal expansion opportunities.* Vodacom aims to extend its reach into horizontal businesses such as media, entertainment and advertising. Vodacom believes that its brand position, effective distribution network and significant customer base places it in a strong position to launch products and services in these growth sectors. Vodacom has recently launched mobile advertising, which has contributed R24.1 million to Vodacom's revenue in the 2008 financial year. Vodacom will seek to leverage this business to contribute to its overall growth in revenues and profitability. Vodacom also aims to seek out new growth opportunities in financial services such as mobile payment services, telemetry and online services through its focus on mobile internet.
- *Seek out new vertical expansion opportunities.* Vodacom's focus in the future is to be active in every area of communications. This means a significant shift away from being a mobile-centric operator to becoming a leading provider of electronic communications infrastructure and related services. Vodacom has also officially launched Vodacom Business through which it aims to provide converged voice, data, internet services and hosting solutions to a corporate customer base through investments in fiber optic rings.
- *Increase revenue from geographic expansion opportunities.* Vodacom intends to increase revenue from its other African operations, by continuing to grow its existing operations in sub-Saharan Africa through converged infrastructure and services, and, to the extent available, by selectively acquiring additional communications licenses or operators in other African markets

in the future that have stable economic and political conditions and good prospects for growth, market leadership and profitability. Vodacom is also considering entering new markets by seeking out alternative entry strategies such as through management and technical services agreements and acquiring non-traditional GSM operators such as internet service providers and other communications service providers. In its other African operations, Vodacom seeks to gain majority ownership, develop strong local partnership relationships and, if possible, obtain non-recourse financing. Vodacom's revenue from other African operations increased 30.3% in the year ended March 31, 2008 to R5.4 billion and 39.2% in the year ended March 31, 2007 to R4.1 billion from R3.0 billion in the year ended March 31, 2006, 50% of which is included in the Telkom Group's revenue. As a result, Vodacom's revenue from other African countries increased from 10.1% of Vodacom's total revenue in the 2007 financial year to 11.2% of Vodacom's total revenue in the 2008 financial year.

Fixed-line communications

Overview

Our fixed-line segment is our largest business segment and includes our fixed-line voice, data and internet businesses. Our fixed-line services consist of:

- fixed-line subscription and connection services to postpaid, prepaid and private payphone customers using PSTN lines, including ISDN lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to postpaid, prepaid and payphone customers, including local, long distance, fixed-to-mobile, international outgoing and international voice over internet protocol traffic services;
- 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; and
- fixed-line data and internet services, including domestic and international data transmission services, such as point to point leased lines, ADSL services, packet-based services, managed data networking services and internet access and related information technology services.

Products and services

Subscriptions and connections

We provide postpaid, prepaid and private payphone customers with digital and analog fixed-line access services, including PSTN lines, ISDN lines, and wireless access between a customer's premises and our fixed-line network. Each analog PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels. Each ISDN line transmits signals at speeds of 64 kbps per channel. Subscriptions to ADSL are included in our data services revenue. We were the first fixed-line operator in the world to provide prepaid service on a fixed-line network. Our prepaid service offers customers an alternative to the conventional postpaid fixed-line telephone service. All costs, including installation, telephone equipment, line rental and call charges, are paid in advance so that there are no monthly phone bills. We target our prepaid service mainly at first time home phone customers who do not have sufficient credit history and are located in areas where we can provide access to our network without significant additional investment. Customers who have previously had their telephone service disconnected due to non-payment are also encouraged to migrate to our prepaid service option in order to reduce future non-payments while satisfying demand for our services. In the 2007 financial year, we introduced Waya Waya, which is our most affordable fixed-line offer yet. Existing customers are required to pay R120 in advance to cover line rental for a year, thereby ensuring that our customers stay connected.

We also offer subscriptions to value-added voice services. We offer a broad range of value-added voice services on a subscription or usage basis, including call forwarding, call waiting, conference calling, voice-mail, toll free calling, ShareCall, which permits callers and recipients to share call costs, speed dialling, enhanced fax services and calling card services for payphones. These services complement our basic voice services and provide us with additional revenue while satisfying customer demand, enhancing our brand and increasing customer loyalty. Value added voice services such as our CallAnswer voicemail service are also bundled with value added calling plans such as Telkom Closer to further enhance the value to our customer.

We provide payphone services throughout South Africa. As of March 31, 2008, we operated approximately 138,344 public payphones and approximately 4,538 private payphones, of which approximately 41% were coin operated and combination payphones and the remainder were card operated payphones.

The following table sets forth information regarding our postpaid and prepaid lines and payphones as of the dates indicated, excluding our internal lines:

	<u>As of March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
	(in thousands, except percentages)				
Postpaid PSTN ⁽¹⁾	2,996	2,971	2,893	(0.8)	(2.6)
Business	1,412	1,426	1,429	1.0	0.2
Residential	1,584	1,545	1,464	(2.5)	(5.2)
Prepaid PSTN	854	795	743	(6.9)	(6.5)
ISDN channels	693	718	754	3.6	5.0
Payphones ⁽²⁾	165	158	143	(4.2)	(9.5)
Total fixed access lines ⁽³⁾	4,708	4,642	4,533	(1.4)	(2.4)

Notes:

- (1) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fiber.
- (2) Includes public and private payphones.
- (3) Total fixed access lines are comprised of PSTN lines, including ISDN channels, prepaid lines, ADSL lines and public and private payphones, but excluding internal lines in service. Each analog PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.

The following table shows information related to the number of our fixed access lines in service, net line growth and churn for the periods provided. Churn is calculated by dividing the number of disconnections by the average number of fixed access lines in service during the period.

	<u>As of March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
	(in thousands, except percentages)				
Opening balance	4,726	4,708	4,642	(0.4)	(1.4)
Net line growth	(18)	(66)	(110)	(266.7)	(66.7)
Connections	615	572	497	(7.0)	(13.1)
Disconnections	(633)	(638)	(608)	0.8	(4.7)
Closing balance	4,708	4,642	4,532	(1.4)	(2.4)
Churn (%)	13.4	13.6	13.3	1.5	(2.2)

Connections include new line orders resulting primarily from changes in service and, to a lesser extent, new line roll-out. Disconnections include both customer initiated disconnections and Telkom initiated disconnections. Included in disconnections and churn are those customers who have terminated their service with Telkom and subsequently subscribed to a new service with Telkom as a result of relocation of premises or change of subscription to a different type of service.

In the 2008 financial year, Telkom continued to focus on customer retention by enhancing its bundled products. In August 2007, Telkom added 30 free local minutes of standard time to its Telkom Closer 1 and 2 plans, and reduced the rates to selected international destinations and introduced pure per second billing for fixed to mobile calls in its Telkom Closer 3, 4 and 5 plans. Telkom Closer 1 and 2 plans will be further enhanced to include 60 free local internet minutes effective August 1, 2008. In addition, the Telkom Closer 3, 4 and 5 plans will be enhanced to include 1,300 free standard time minutes effective August 1, 2008. In addition, Telkom expanded its current PC bundle campaign to also offer products such as X-Boxes.

In the 2007 financial year Telkom continued to focus on customer retention through discounted offers, relaxation of credit management policies and targeted marketing campaigns, including Project Reconnect, a marketing campaign targeted at customers changing locations; the re-launch of PD Connect, a marketing and tracking service for property developers; and the implementation of specialized sales teams for gated communities. Telkom continues to focus on offering value for money, by launching and continuously enhancing packages such as PC bundles and Telkom Closer, including the following:

Telkom Closer 1	Includes line rental, Call Answer, a minimum charge at a flat rate for calls during off peak time up to one hour, and a discounted per record rate for local and long- distance calls subject to a minimum charge and since August 2007, 30 free local minutes during standard time. In addition, with effect from August 2008, this package includes 60 free local internet minutes during callmore time.
Telkom Closer 2	Includes line rental, Call Answer, unlimited free calls for calls during off peak time up to one hour, and a discounted per record rate for local and long-distance calls subject to a minimum charge and since August 2007, 30 free local minutes during standard time. In addition, with effect from August 2008, this package includes 60 free local internet minutes during callmore time.
Telkom Closer 3	Includes line rental, Call Answer, 1,000 inclusive free peak time minutes, unlimited free calls for calls during off peak time up to one hour, a discounted per second rate for local and long distance calls subject to a minimum charge, and, since August 2007 reduced rates to selected international destinations and pure per second billing for fixed to mobile calls.
Telkom Closer 4	All the benefits of Telkom Closer 3 bundled with DSL 384.
Telkom Closer 5	All the benefits of Telkom Closer 3 bundled with DSL 4096.

Telkom Closer plans 1 to 3 have an option to purchase 150 or 75 local internet hours during Callmore time.

Despite these campaigns, Telkom's fixed-line base declined by 2.4% in the 2008 financial year and 1.4% in the 2007 financial year. The decrease in the number of subscriber lines was mainly in the lower revenue generating areas such as prepaid PSTN lines and residential postpaid PSTN lines, partially offset by an increase in ISDN channels and business postpaid PSTN lines. The higher revenue generating areas, such as business lines, showed a positive growth of 0.2% in the 2008 financial year and 1.0% in the 2007 financial year. The decrease in the number of residential postpaid PSTN lines was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections, while the decrease in prepaid PSTN lines was primarily as a result of customer migration to mobile services and our residential postpaid PSTN services to enable access to subscription based calling plans. The decline in prepaid services in the 2008 financial year, was offset in part by "Waya-Waya", which accounted for approximately 32.5% of prepaid services as of March 31, 2008. The increase in ISDN channels and ADSL services was primarily driven by increased demand for higher bandwidth and functionality. This, together with the alignment of the residential and business DSL product and the upgrading of DSL 192 to DSL 384, without any

additional cost to the customer, has added to the positive growth in ADSL. ISDN services grew by approximately 5.0% in the 2008 financial year mainly due to Telkom's primary rate service which grew 9.5%, while its basic rate declined 3.2%.

We also offer telecommunications equipment rentals and sales, such as telephones and private branch exchange systems, or PABX systems, related post-sales maintenance and service for residential and business customers in South Africa. The market in South Africa for such equipment and systems, commonly known as customer premises equipment, is characterized by high competition and low profit margins. We believe, however, that the supply and servicing of customer premises equipment is an essential element of providing a full service to our customers.

Traffic

We offer local, long distance, fixed-to-mobile, international outgoing and international voice over internet protocol services to business, residential and payphone customers throughout South Africa at tariffs that vary depending on the destination, distance, length, day and time of call. Local traffic services are for calls made to destinations less than 50 km from origination. Long distance traffic services are for calls made to national destinations greater than 50 km from origination. We provide international outgoing services, including both voice and data traffic. We provide direct international dialling access to approximately 230 destinations.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value added services and free or discounted rates on calls. Traffic revenues from calling plan subscriptions was reported as part of local traffic revenue in financial years prior to the 2007 financial year, as most of these calling plans related to local calls only and the amounts were insignificant. The access line rentals and value added services revenue components of calling plan arrangements are included in subscriptions and connecting revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Commencing in the 2007 financial year, subscription based calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

The following table sets forth information regarding our fixed-line traffic, excluding interconnection traffic, for the periods indicated. We calculate fixed-line traffic by dividing fixed-line traffic revenues for the particular category by the weighted average tariff for such category during the relevant period.

	<u>Year ended March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
Local ^{(1) (2)}	18,253	14,764	11,317	(19.1)	(23.3)
Long distance ^{(1) (2)}	4,446	4,224	3,870	(5.0)	(8.4)
Fixed-to-mobile	4,064	4,103	4,169	1.0	1.6
International outgoing	515	558	635	8.4	13.8
International voice over internet protocol	83	38	43	(54.2)	13.2
Subscription based calling plans ⁽²⁾	—	1,896	2,997	—	58.6
Total traffic	27,361	25,583	23,031	(6.5)	(10.0)

Notes:

- (1) Local and long distance traffic includes dial-up internet traffic.
- (2) Traffic from subscription based calling plans has been reclassified from local and long distance traffic into a separate line item in the 2007 and 2008 financial years. Traffic from subscription based calling plans was not reclassified in the 2006 financial year.

Traffic was adversely affected in both the 2008 and 2007 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up internet traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in our payphone business. The decrease in international voice over internet protocol traffic in the 2007 financial year is primarily due to relocation of the international call center business by one of our customers outside South Africa.

Interconnection services

We provide interconnection services to Neotel, which began October 2007, the three mobile operators, Vodacom, MTN and Cell C, and certain other entities that lawfully provide licensed telecommunications services in South Africa consisting of call termination and call transit, as well as access, through our network, to other services, including FreeCall 0800, ShareCall 0860 and HomeFree, emergency services and directory enquiry services.

We also provide interconnection services to international operators in respect of incoming international calls and hubbing traffic through South Africa to other countries. We are seeking to establish ourselves as the principal international telecommunications hub for Africa through our investments in undersea cables and our network and our arrangements with other operators in Africa in order to continue to increase international hubbing revenue.

The following table sets forth information regarding interconnection traffic terminating on or transiting through our network for the periods indicated. We calculate interconnection traffic, other than international outgoing mobile traffic and international interconnection traffic, by dividing interconnection revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices.

	Year ended March 31,			2007/2006	2008/2007
	2006	2007	2008	% change	% change
	(in millions, except percentages)				
Domestic mobile interconnection traffic	2,299	2,419	2,502	5.2	3.4
Domestic fixed interconnection traffic	—	—	113	—	n/a
International interconnection traffic	1,355	1,321	1,280	(2.5)	(3.1)
Total	3,654	3,740	3,895	2.4	4.1

Domestic mobile interconnection traffic includes traffic from mobile operators terminating on our network, international outgoing calls from mobile networks and access to other services such as emergency services and directory enquiry services. The increase in domestic mobile interconnection traffic in the years ended March 31, 2008 and 2007 was primarily due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing our network.

Domestic fixed interconnection traffic includes traffic from Neotel, USALs and VANS.

International interconnection traffic consists of international termination traffic and international hubbing traffic. International interconnection traffic decreased in the 2008 financial year due to a decrease in volumes as a result of loss of volumes to Neotel, Sentech, the USALs and illegal operators terminating traffic in the country. International interconnection traffic decreased in the 2007 financial year due to a decrease in international switch hubbing traffic.

Data communications services

We offer a wide range of national and international data communications services, including:

- data transmission services, such as point to point leased lines, ADSL and packet-based services;
- managed data networking services;
- global services; and
- internet access and related information technology services.

Data transmission services

Data transmission services provide the connection of information technology applications over wide area networks. These services include point to point leased lines and packet-based services. We have a growing portfolio of data transmission products tailored to different customer needs from high bandwidth mission critical applications to low bandwidth best effort applications. We also offer our customers tailor-made cost effective customer specific solutions.

Leased lines. We provide national and international leased lines in South Africa. Leased lines are fixed connections between locations, which are secure and exclusive to the user, and are mainly used for high volume data or multimedia transmission. Leased lines are our principal data transmission service and include Diginet, Diginet Plus and Megaline services. We also provide leased lines to broadcasters for audio and video services. Our leased line customers pay an initial installation charge and a recurring fee based on the type, length and capacity of the leased line. Leased line charges have decreased since the 2005 financial year and we expect that competition may increase pressure on prices in the future. We are currently enhancing the Diginet portfolio to cater for the migration of customers from the old platform to NG Diginet Frame to ensure continuity in service.

Large numbers of leased lines are provided to the mobile operators at negotiated wholesale rates for the build out of their networks. With the growth in traffic carried on the mobile networks, a need was identified for the deployment within these networks of transmission links with transmission speeds higher than the 2 Mbps provided by existing agreements. We entered into broadband fixed link leasing agreements with Vodacom and MTN in the 2004 financial year and with Cell C in the 2005 financial year. These agreements have been enhanced over time, and we currently provide broadband links at speeds of 45 Mbps, 155 Mbps and 622 Mbps, and anticipate that we will soon be providing links at speeds of 2.5 Gbps. Formalized service level agreements and term and volume based discount structures, as a counter to the competitive challenges that are occurring in this area of the business have been put in place. These agreements have been enhanced over time, and we anticipate that we will soon be providing links at speeds of 45 Mbps, 155 Mbps and 622 Mbps, and agreements and term and volume based discount structures have been put in place, as a counter to the competitive challenges that are occurring in this area of the business.

Recognizing the increasing threat of competition in the provision of leased lines to the mobile operators, Telkom introduced further discounting structures in the 2007 and 2008 financial years in order to improve the attractiveness of Telkom's product offerings to this rapidly growing market. Fixed link leasing agreements were also entered into with some of the smaller operators, including VANS and USALs, as well as Neotel. Vodacom and MTN have both indicated that they intend to self-provide some of the leased lines, which they require for the build out of their networks, as an alternative to leasing them from Telkom. We are currently negotiating improved leased line prices with the mobile operators in order to retain revenue from leased lines.

The following table sets forth the bandwidth capacity of our Diginet, Diginet Plus, ATM Express and broadcasting data transmission services:

Leased line	Bandwidth
Diginet	2.4 Kbps to 64 Kbps
Diginet Plus	128 Kbps to 2 Mbps
ATM Express	2 Mbps to 155 Mbps
Broadcasting	
Analogue audio	7.5 or 15 KHz
Analogue video	70 MHz
Digital	2 Mbps to 155 Mbps

Our portfolio of global international products consists of a number of different products. We have international private line circuits, or IPLCs, which are our Diginet and Megaline equivalent to international destinations with bandwidths ranging from 2.4 Kbps up to 155 Mbps. The international private line circuits use both cable infrastructure, and satellite infrastructure. This product is complimented by our three global alliances with Infonet, Equant and BT, which are used to offer customers connectivity based on those companies' global networks. Our global alliances have coverage throughout the world and it is easier for customers to use them from an ordering, installation and support point of view, as they have physical presence or formally appointed partners in each country.

We are busy with a product enhancement on the IPLC portfolio by productizing restoration and adding SLAs. Telkom has also started offering IRU service offerings, which are expected to ensure the long term retention of customers as well as incremental revenue streams. Another diversification of the International leased line portfolio was the introduction of partial IPLC in April 2008.

Telkom Wholesale launched a new wholesale service, offering Resell ADSL on April 10, 2007 to value added network service licensees and internet service providers. Resell ADSL enables wholesale customers to resell ADSL access to their customers. The main advantage of this service is that the wholesale customer is the single point of contact for new ADSL access orders and first level ADSL service assurance. The service is provisionally available to those customers who have an active, broadband friendly Telkom analogue telephone service. Telkom Resell ADSL offers the following service options:

- Resell ADSL up to 384 Kbps.
- Resell ADSL up to 512 Kbps.
- Resell ADSL up to 4096 Kbps.

The service is provided with a self-install option only and service providers are able to provide their own modems.

ADSL Services. ADSL allows the provisioning of high speed connections over existing copper wires using digital compression. We have different ADSL services available, aimed at the distinct needs of our customers. In an attempt to simplify our DSL offering and to increase value to the customer we have aligned the residential and business DSL product offerings and upgraded all DSL 192 customers to DSL 384 without any additional cost to the customer. The following table indicates our product offerings as of March 31, 2008:

		DSL 384	DSL 512	DSL 1024
Downstream speed	Up to	384 Kbps	512 Kbps	4096 Kbps
Upstream speed	Up to	128 Kbps	256 Kbps	384 Kbps

In April 2007, Telkom launched Do Broadband, which bundles ADSL access and a TelkomInternet account at discounted rates. We have also launched DSL Self-install as an alternative to the usual installation process involving a visit from a Telkom technician. Apart from the convenience of Self-install, it enables customers to save R490.00 in installation fees. We intend to continue to offer ADSL packages, including a free modem, with a 24 month contract. Telkom has further launched a value added portal in May 2007 through which our customers have access to a host of our broadband value added services. With the launch of the portal, Telkom introduced Do Music, which offers our customers affordable music downloads across all genres. In January 2008, we launched an educational portal called Edunet. We intend to offer more value added services through the portal in future.

Packet-based services. Packet-based services are based on a statistical multiplexing technique that allows customers to share bandwidth more cost effectively based on a virtual private network concept. Our packet-based services include packet-switched services (X.25), frame relay services, asynchronous transfer mode (ATM) services and internet protocol (IP) services.

Our asynchronous transfer mode based services include ATM Express and Megaline Plus. ATM Express provides digital transmission services for wide area networks at speeds from 2 Mbps up to 155 Mbps. ATM Express provides a medium for companies to transmit high volumes of information at high speeds over their wide area network with high quality and reliable connections. Voice, video and data applications can be supported simultaneously over a connection. Megaline Plus is a broadband service providing for the carrying of voice, video and data at a constant bit rate across our asynchronous transfer mode network. ATM Express and Megaline Plus serve as an integral component of our integrated virtual private network service offering that allows for the convergence of voice, data, video, e-commerce and web services across a single access medium over our network. We expect our asynchronous transfer mode based service revenue to grow as a result of customers' growing demand for bandwidth, flexibility and reliability. The development of new access products such as the MetroLan and NG SDH will also ensure new growth in the data portfolio.

Our primary internet protocol data transmission product is an IP-based VPN product, branded VPN Supreme. VPN Supreme offers our customers the ability to converge voice, data and video applications over a single, managed VPN. This is supported by VPN Lite, a retail product aimed at the lower end of the market to leverage ADSL access. On the international front we have invested in an internet protocol and voice-over internet protocol network and launched a regional clearinghouse to serve as a hub for voice traffic on the African continent. We have launched Telkom Global VPN which enables converged services globally.

The current wholesale Easy VPN product will be enhanced to include leased lines in addition to the current ADSL access service being utilized with the product.

Managed data networking services

Our managed data networking services combine our data transmission services discussed above with active network management provided from our state-of-the-art national network operations center. We offer a wide range of integrated and customized networking services, including planning, installation, management and maintenance of corporate wide data, voice and video communications networks, as well as other value-added services, such as capacity, configuration and software version management on customers' networks. To support our service commitment, we offer guaranteed service level agreements on a wide range of our products, which include guaranteed availability, or uptime, of the network through the use of our national network operations center.

Our managed data networking services include our customer network care service, which facilitates the network management of all our data transmission services using the leased lines or packet-based services discussed above, and our Spacestream and IVSat products, which are satellite

based products. Spacestream is a high quality, flexible satellite networking service that supports data, voice, fax, video and multimedia applications, both domestically and into the rest of Africa.

Managed data networking services are billed on a monthly basis and vary by customer depending on the particular services provided and the number of network sites under management. The following table sets forth information regarding the number of managed network sites for each of our managed data networking services as of the dates indicated.

	<u>As of March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
Terrestrial based	9,492	12,905	17,237	36.0	33.6
Satellite based	7,395	8,974	7,875 ⁽¹⁾	21.4	(12.2)
Total managed network sites	16,887	21,879	25,112	29.6	14.8

Note:

- (1) Satellite based managed network sites declined during the 2008 financial year as a result of Uthingo, the South African lottery operator, losing its license to operate.

Our portfolio of global international products consists of a number of different products. We have international private line circuits, which are our Diginet and Megaline equivalent to international destinations with bandwidths ranging from 2.4 Kbps up to 155 Mbps. The international private line circuits use both cable infrastructures, such as submarine cables, or satellite infrastructure. This product is complimented by our three global alliances with Infonet, Equant and BT, which are used to offer customers connectivity based on those companies' global networks. Our global alliances have coverage throughout the world and it is easier for customers to use them from an ordering, installation and support point of view, as they have physical presence or formally appointed partners in each country. Due to the packet-based nature of these global networks, the cost efficiencies inherent in these networks can be passed on to customers to ensure more affordable services. We also expanded our global portfolio with the launch of our own Global VPN during the last quarter of the 2007 financial year.

Internet access services and other related information technology services

We are one of the leading internet access providers in South Africa in the retail and wholesale internet access provision markets. We also package our TelkomInternet product with personal computers, ADSL and ISDN services, as well as our satellite access products, SpaceStream Express and SpaceStream Office.

Our South African internet eXchange, or SAIX, is South Africa's largest internet access provider, offering dedicated and dial-up, ADSL and satellite internet connectivity to internet service providers and value added network providers. SAIX has offered fixed-line network internet access through dialup service since 1995. SAIX derives revenue for its access services primarily from subscription fees paid by internet service providers and value added network providers for access services. In order to grow the portfolio, an opportunity has been identified to develop a service targeted mainly at night users of the SAIX ADSL service. These customers can be regarded as heavy users as they use the service mainly for games, music and movie downloading. The SAIX customer base has expanded beyond service providers and value added network providers, and now includes Vodacom and other operators in Africa. These include incumbents in Mozambique, Namibia, Angola, Zimbabwe and Lesotho.

An opportunity has been identified to develop a SAIX northern hemisphere internet service targeted at African operators and ISPs to enhance further growth of internet access services north of the equator. The customers in this region normally purchase their internet services from Europe at far cheaper rates than southern African internet operators. The establishment of a central SAIX hub in London is expected to ensure that we can capture this market and increase our revenue.

In the retail market, TelkomInternet offers a range of internet services to residential and business customers. These services include analog and ISDN dial-up services, ADSL services and TelkomInternet powered by Satellite services. The access services are complemented by a range of value-added services, including e-mail services, domain name services and hosting services. All TelkomInternet access bundles include e-mail services, Web based e-mail access, anti-virus services, exclusive content through our TelkomInternet website and 24 hour technical support services.

Telkom offers full commercial service of a broadband based internet access powered by satellite. It is a Vsat product offering that allows effective sharing of the satellite platform making the service more affordable. Following the successful introduction of TelkomInternet via satellite, Telkom expanded its SpaceStream Express product into Africa branded as SpaceStream Africa.

In July 2005, TelkomInternet introduced a range of internet access and personal computer bundles to the consumer market. These bundles included a personal computer, internet access, internet call minutes, and various traditional Telkom services. During the 2007 financial year TelkomInternet also introduced toll free technical support.

The following table sets forth information regarding our wholesale and retail internet services and customers as of the dates indicated.

	<u>Year ended March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
Wholesale					
Internet leased lines-equivalent 64 kbps	16,832	19,247	22,541	14.3	17.1
Dial-up ports	12,889	11,462	7,010	(11.1)	(38.8)
Retail					
Internet dial-up subscribers	228,930	210,453	242,732	(8.1)	15.3
Internet ADSL subscribers	53,997	92,140	115,334	70.6	25.2

Our wholesale internet services are billed on a bandwidth basis while our retail internet services are billed on a monthly subscription basis. We also generate fixed-line traffic revenue from internet traffic routed over our fixed-line network.

Various opportunities have been identified nationally to develop a hosting solution bundled with SAIX. This solution is expected to increase the retention of customers and related revenues.

Information technology and related services. We have expanded our data offering to selected information technology services that include local area network services, basic hosting, data center hosting, managed infrastructure hosting, web application hosting, security services, disaster recovery, storage services and application service provider hosting. Our security services include firewalls, intrusion detection, and spam and virus protection.

We also offer e-commerce products and services, including electronic data interchange, hosted procurement market place, payment gateways, electronic storefronts, electronic bill presentment and message translation services. CyberTrade, our web based e-commerce service provider, provides users with a secure platform to perform online banking and stock market trading, to buy and sell goods and products from electronic merchants and to access critical information.

Fees and tariffs

Tariff rebalancing

We made significant progress in rebalancing our fixed-line tariffs. Telkom's tariff rebalancing program was historically aimed at better aligning its fixed-line traffic charges with underlying costs

and international norms. Telkom expects that its tariff rebalancing in the future will focus more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs and in response to increased competition.

Regulations made under the Telecommunications Act, which remain in effect, impose a price cap on a basket of Telkom's specified services, including installations; prepaid and postpaid line rental; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; our Diginet product; and our Megaline product. A similar cap applies to a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity and the rental and installation of business exchange lines. Approximately 64% of Telkom's operating revenue in the year ended March 31, 2007 was included in this basket compared to approximately 57% of Telkom's operating revenue in the year ended March 31, 2008. Our tariffs for these services are filed with ICASA for approval. The price cap operates by restricting the annual percentage increase in revenues from all services included in the basket that are attributable solely to price changes to annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA and pursuant to the Electronic Communications Act, revenue generated from services where we have significant market power may not be used to subsidize competitive services. Early in 2008, ICASA commissioned a review of the existing price control regulations applicable to Telkom, however, ICASA has not initiated the statutory public process of reviewing the existing regulations. Telkom is awaiting communication from ICASA in respect of proposed timelines for the review. It is possible that both the composition of the basket and the price cap will be changed in a manner detrimental to Telkom, which could lower its revenues. It is not possible at this stage to assess the extent of these changes. It is unlikely that these changes will be implemented in time for Telkom's latest tariff filing, due to be effective from August 1, 2008.

ICASA approved a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005, a 2.1% reduction in the overall tariffs for services in the basket effective August 1, 2006 and a 1.2% reduction on its regulated basket of products and services effective August 1, 2007. On June 20, 2008, Telkom filed with ICASA proposed average price increases on its regulated basket of products and services of 2.4% as a result of inflation increases, effective August 1, 2008. The price control formula would have permitted Telkom to apply for a 17.2% price increase due to the high consumer price index in South Africa and excess carryover of lower price increases for prior periods. See Item 3. "Key Information – Risk Factors – Risks Related to Regulatory and Legal Matters – Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom's revenue and net profit could also decline if wholesale price controls are imposed on it" above and "Regulation and License Requirements" below. All tariffs include value added tax at a rate of 14%.

Subscription and connection tariffs

We provide reduced installation charges to most packaged services and provide discounts for other customer specific solutions. In order to attract high volume corporate and business customers we offer volume and term programs on certain data products that fix rates at the lower of the prevailing rates or the rate at the time of the contract. We also offer term discounts on our ISDN primary service.

The following tables show our subscriptions and connections tariffs as of September 1, 2005, August 1, 2006, August 1, 2007 and our proposed tariffs as of August 1, 2008 based on our tariff filing with ICASA in June 2008.

As of September 1, 2005					
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN2A Basic	ISDN30 Primary
	(ZAR, including value-added tax)				
Business					
Installation	316.10	n/a	443.35	605.10	23,876.00
Monthly rental	122.60	n/a	230.50	245.00	3,677.87
Residential					
Installation	316.10	182.50	443.35	605.10	n/a
Monthly rental	92.28	57.25	195.90	220.50	n/a
As of August 1, 2006					
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN2A Basic	ISDN30 Primary
	(ZAR, including value-added tax)				
Business					
Installation	342.30	n/a	480.10	655.25	25,855.30
Monthly rental	132.75	n/a	230.50	245.00	3,982.59
Residential					
Installation	342.30	197.60	480.10	655.25	n/a
Monthly rental	99.92	57.25	166.52	176.40	n/a
As of August 1, 2007					
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN2A Basic	ISDN30 Primary
	(ZAR, including value-added tax)				
Business					
Installation	383.37	n/a	537.72	733.88	28,957.94
Monthly rental	148.68	n/a	258.15	274.40	4,460.50
Residential					
Installation	383.37	221.30	537.72	733.88	n/a
Monthly rental	111.90	57.25	186.50	197.57	n/a
As of August 1, 2008					
	PSTN Postpaid	PSTN Prepaid ⁽¹⁾	ISDN2 Basic	ISDN2A Basic	ISDN30 Primary
	(ZAR, including value-added tax)				
Business					
Installation	425.50	n/a	596.87	814.61	32,143.31
Monthly rental	165.00	n/a	286.55	304.60	4,460.50
Residential					
Installation	425.50	245.60	596.87	814.61	n/a
Monthly rental	124.20	57.25	207.01	219.30	n/a

Note:

(1) The tariff for residential weekly rental is R13.21.

Traffic tariffs

Local, long distance and fixed-to-mobile

When setting local and long distance call pricing, a number of variables are considered in order to generate an optimal level of revenue and to balance demand and affordability within our price cap limitations. These include the duration, the distance between the points of origin, the destination, the time of day and the day of the week of the call.

For calls from our fixed-line customers to mobile users, we bill our customers the standard retail tariff, retain a fixed portion of the retail tariff and pay the remainder of the tariff to the mobile operator.

The following table sets forth our postpaid and prepaid traffic tariffs as of September 1, 2005, August 1, 2006, August 1, 2007 and our proposed tariffs as of August 1, 2008 based on our tariff filing with ICASA in June 2008.

	September 1, 2005		August 1, 2006		August 1, 2007		August 1, 2008	
	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾
(ZAR, including value-added tax)								
Postpaid services								
(residential and business)								
Local minimum call charge (0 – 50 km) for first unit ⁽³⁾	0.59	0.59	0.59	0.59	0.59	0.59	0.65	0.65
Local call rate per minute (0 – 50 km) after first unit ⁽³⁾	0.38	0.16	0.38	0.16	0.38	0.17	0.39	0.19
Long distance minimum call charge (>50 km) for first unit ⁽⁴⁾	0.80	0.80	0.72	0.72	0.65	0.65	0.65	0.65
Long distance call rate per minute (>50 km) after first unit ⁽⁴⁾	0.80	0.40	0.72	0.36	0.65	0.33	0.65	0.33
Fixed-to-mobile call rate per minute ⁽⁵⁾	1.89	1.17	1.89	1.17	1.89	1.17	1.89	1.17
Prepaid services (residential only)								
Local minimum call charge (0 – 50 km) for first unit ⁽⁶⁾	0.59	0.59	0.62	0.62	0.62	0.62	0.68	0.68
Local call rate per minute (0 – 50 km) after first unit ⁽⁶⁾	0.43	0.18	0.45	0.19	0.46	0.21	0.48	0.23
Long distance minimum call charge (>50 km) for first unit ⁽⁷⁾	0.80	0.80	0.84	0.84	0.76	0.76	0.76	0.76
Long distance call rate per minute (>50 km) after first unit ⁽⁷⁾	0.95	0.48	1.00	0.50	0.90	0.45	0.90	0.45
Fixed-to-mobile call rate per minute ⁽⁵⁾	1.89	1.17	1.89	1.17	1.89	1.17	1.89	1.17

Notes:

- (1) Monday to Friday 7 a.m. to 7 p.m. for local and long distance calls. Monday to Friday 7 a.m. to 8 p.m. for fixed-to-mobile calls.
- (2) Monday to Thursday 7 p.m. to 7 a.m. the next morning, and Friday 7 p.m. to Monday 7 a.m. for local and long distance calls. Monday to Thursday 8 p.m. to 7 a.m. the next morning, and Friday 8 p.m. to Monday 7 a.m. for fixed-to-mobile calls.
- (3) The first unit for peak calls is 100 seconds with effect from August 1, 2008 (August 1, 2007, August 1, 2006 and September 1, 2005: 94 seconds) and for off peak calls with effect from August 1, 2008 is 210 seconds (August 1, 2007: 209 seconds, August 1, 2006 and September 1, 2005: 223 seconds).
- (4) The first unit for peak calls is 60 seconds and for off peak calls is 120 seconds.
- (5) Calls are charged in increments of 60 seconds for the first minute and in increments of 30 seconds thereafter.

- (6) The first unit for peak calls with effect from August 1, 2008 is 86 seconds (August 1, 2007: 81 seconds, August 1, 2006 and September 1, 2005: 83 seconds) and for off peak calls with effect from August 1, 2008 is 179 seconds (August 1, 2007: 181 seconds, August 1, 2006 and September 1, 2005: 194.5 seconds).
- (7) The first unit for peak calls is 51 seconds and for off peak calls is 101 seconds.

International outgoing

Our outgoing international call tariffs and payments are based on settlement rates negotiated with other international carriers on a bilateral basis. The following table sets forth our international outgoing traffic tariffs per minute as of September 1, 2005, August 1, 2006, August 1, 2007 and our proposed tariffs as of August 1, 2008 based on our tariff filing with ICASA in June 2008 for residential and business customers to the ten most frequently called countries based on traffic. Telkom's 2008 proposed international call tariffs will result in an approximate overall 0.2% increase in international tariffs.

	As of September 1, 2005		As of August 1, 2006		As of August 1, 2007		As of August 1, 2008	
	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾
	(ZAR, including value-added tax)							
United Kingdom	1.70	1.50	1.40	1.30	0.95	0.85	0.90	0.80
United States	1.70	1.50	1.20	0.99	0.95	0.85	0.90	0.80
Namibia	1.66	1.30	1.30	1.30	1.40	1.15	1.10	0.98
Zimbabwe	1.66	1.30	1.60	1.30	1.40	1.15	1.62	1.33
Botswana	1.66	1.30	1.64	1.28	1.40	1.15	1.40	1.15
Australia	1.70	1.50	1.50	1.50	1.40	1.15	1.40	1.15
Germany	2.00	1.80	2.00	1.94	2.22	2.15	2.03	1.59
Swaziland	1.66	1.30	1.66	1.30	1.40	1.15	1.10	0.98
India	2.30	2.00	1.80	1.80	1.80	1.70	1.81	1.59
Mozambique	2.70	2.50	2.50	2.50	1.40	1.15	1.40	1.15

Notes:

- (1) Monday to Friday 8 a.m. to 8 p.m.
- (2) Monday to Thursday 8 p.m. to 8 a.m. the next morning, and Friday 8 p.m. to Monday 8 a.m.

Subscription based plans

The following table set forth the tariff rates for our Telkom Closer plans as of August 1, 2007 and our proposed tariff rates as of August 1, 2008 based on our tariff filing with ICASA in June 2008.

Closer 1	Closer 2	Closer 3	Closer 4	Closer 5
Line rental, Call Answer	Line rental, Call Answer	Line rental, Call Answer	Line rental, Call Answer DSL 384	Line rental, Call Answer DSL 4096
<i>Standard time:</i> 49c per minute 49c minimum local and long distance, first 30 local minutes free	49c per minute and long distance, first 30 local minutes free	1,000 free minutes increase to 1,300, ⁽¹⁾ per second billing for fixed to mobile	1,000 free minutes increase to 1,300, ⁽¹⁾ per second billing for fixed to mobile	1,000 free minutes increase to 1,300, ⁽¹⁾ per second billing for fixed to mobile
<i>Callmore time:</i> R1.40 per call local and long distance up to an hour, 60 free local internet minutes ⁽¹⁾	Unlimited local & and long distance calls up to an hour, 60 free local internet minutes ⁽¹⁾	Free up to 1 hour, per second billing for fixed to mobile calls	Free up to 1 hour, per second billing for fixed to mobile calls	Free up to 1 hour, per second billing for fixed to mobile calls
Standard international tariffs	Standard international tariffs	72c per minute, 65c minimum to 30 most popular destinations	72c per minute, 65c minimum to 30 most popular destinations	72c per minute, 65c minimum to 30 most popular destinations
Rate as of August 1, 2007				
R120	R145	R300	R429	R651
Rate as of August 1, 2008				
R135	R161	R333	R462	R684

Note:

(1) Enhancement from August 1, 2008.

Telkom SupremeCall is a calling plan that enables customers to save on their total telecommunication costs. SupremeCall offers customers' savings on all major call types in return for a committed monthly amount of usage. Customers are able to choose calling plans ranging from R1,000 to R20,000 with savings of up to 25% on the inclusive amount of call usage purchased.

The following table set forth the tariff rates for Telkom SupremeCall as of August 1, 2008 based on our tariff filing with ICASA in June 2008. SupremeCall package prices have not changed since implementation.

SupremeCall Options available	Monthly rental (Incl. VAT)
SupremeCall 1000	R1,000
SupremeCall 1750	R1,750
SupremeCall 2500	R2,500
SupremeCall 4000	R4,000
SupremeCall 6000	R6,000
SupremeCall 8000	R8,000
SupremeCall 10000	R10,000
SupremeCall 12000	R12,000
SupremeCall 15000	R15,000
SupremeCall 18000	R18,000
SupremeCall 20000	R20,000

Interconnection tariffs

Interconnection termination rates for mobile operators are distance independent and are based on aggregated measurements of traffic crossing the points of interconnection measured on a per-second basis. For national calls from mobile users to fixed-line customers, the mobile operator pays us a termination fee. The risk of uncollectibles is carried by the originating operator. For incoming international calls destined for mobile users, we pay the mobile operator a termination rate which is the same as the rate we pay for fixed-to-mobile calls, and for outgoing international calls originating from mobile users, the mobile operators pay to us our standard wholesale rate for international calls. In order to better compete for outgoing international traffic originated by the mobile operators, Telkom replaced its discounted retail charging model for such traffic with a wholesale charging model with Vodacom in April 2006 and with MTN and Cell C in August 2006.

Our current interconnection tariffs are set out in interconnection agreements negotiated and agreed by us and the other operators. ICASA is entitled to issue, and has issued, regulations relating to interconnection between South African licensed operators. Telkom's interconnection agreements provide for annual increases in the portion of fixed-to-mobile tariffs retained by Telkom and the termination rates payable by Telkom to the mobile operators as well as the termination rates payable to Telkom from the mobile operators for mobile-to-fixed calls.

The following table sets forth our fixed-to-mobile retail tariffs, including our termination rates paid to mobile operators and our retention rates, and our mobile-to-fixed tariffs as of January 1, 2006, January 1, 2007 and January 1, 2008. Fixed-to-mobile tariffs are billed for the first 60 seconds and 30 second increments thereafter. Termination rates paid to mobile operators are paid on a per second basis.

	As of January 1, 2006		As of January 1, 2007		As of January 1, 2008	
	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾
	(ZAR, including value-added tax)					
Fixed-to-mobile retail rate	1.89	1.17	1.89	1.17	1.89	1.17
Termination rate paid to mobile operators	1.43	0.88	1.43	0.88	1.43	0.88
Retention rate	0.46	0.29	0.46	0.29	0.46	0.29
Mobile-to-fixed retail rate						
Termination rate paid to Telkom	0.33	0.18	0.33	0.18	0.33	0.18

Notes:

(1) Monday to Friday 7 a.m. to 8 p.m.

(2) Monday to Thursday 8 p.m. to 7 a.m. the next morning and Friday 8 p.m. to Monday 7 a.m.

Neotel was licensed on December 9, 2005 and commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to corporate customers and other licensees. On April 25, 2008 Neotel announced that the first of its consumer products were available to limited parts of Johannesburg and Pretoria. The following table sets forth our retail tariffs applicable to calls to Neotel, effective from May 23, 2007, including our termination rates paid to Neotel and our retention rates, and our interconnection tariffs which are applied between Telkom and Neotel. Telkom's retail tariff for such calls is billed on a per second basis with a minimum charge of 65 cents. The interconnection fees payable between Telkom and Neotel are pseudo-distance based rates coupled to the national numbering plan regulations, consisting of a lower within billing zone, or WBZ, rate, and a higher beyond billing zone, or BBZ, rate. If a call is handed over to the other network in the same billing zone as that in which it terminates, then the WBZ rate is applicable. If it is handed over in a billing zone other than that in which it terminates, then the BBZ rate is applicable.

As of May 23, 2007		
	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾
(ZAR, including value-added tax)		
Telkom to Neotel retail rate	0.65	0.65
WBZ termination rate paid to Neotel	0.23	0.23
Retention rate	0.42	0.42
Telkom to Neotel retail rate	0.65	0.65
BBZ termination rate paid to Neotel	0.33	0.33
Retention rate	0.32	0.32
Neotel to Telkom calls		
Termination rate paid to Telkom (WBZ)	0.26	0.14
Termination rate paid to Telkom (BBZ)	0.38	0.22

Notes:

(1) Monday to Friday 7 a.m. to 8 p.m.

(2) Monday to Thursday 8 p.m. to 7 a.m. the next morning and Friday 8 p.m. to Monday 7 a.m.

Various interconnection agreements have also been signed with smaller operators such as VANS and USALs.

The following table sets forth our Telkom-to-USAL retail tariffs effective from May 23, 2007, including our termination rates paid to the USALs and our retention rates, and our USAL-to-Telkom tariffs applied between Telkom and the USALs. Telkom's fixed-to-USAL retail tariffs for mobile USAL calls are billed for the first 60 seconds which is the minimum charge applicable for the call, and in 30 second increments thereafter. Telkom's fixed-to-USAL retail tariffs for calls within the USALs' service area are billed on a per second basis with a minimum charge of 65 cents. Termination rates paid to the USALs are paid on a per second basis.

As of May 23, 2007		
	Peak rates ⁽¹⁾	Off peak rates ⁽²⁾
(ZAR, including value-added tax)		
Telkom-to-USAL retail rate (Calls to mobile USAL numbers) .	1.89	1.17
Termination rate paid to USAL	1.43	0.88
Retention rate	0.46	0.29
Telkom-to-USAL retail rate (Calls to fixed USAL numbers) .	0.83	0.43
Termination rate paid to USAL	0.33	0.18
Retention rate	0.50	0.25
USAL-to-Telkom calls		
Termination rate paid to Telkom	0.33	0.18

Notes:

(1) Monday to Friday 7 a.m. to 8 p.m.

(2) Monday to Thursday 8 p.m. to 7 a.m. the next morning and Friday 8 p.m. to Monday 7 a.m.

The following table sets forth our retail tariffs applicable to calls to VANS effective from May 23, 2007, including the termination rates paid to the VANS and our retention rates, and our VANS-to-Telkom tariffs applied between Telkom and the VANS. Telkom's retail charges for calls to VANS are billed on a per second basis with a minimum charge of 65 cents. The interconnection fees payable to Telkom by the VANS are distance based rates as given below.

	As of May 23, 2007	
	Peak	Off peak
	rates ⁽¹⁾	rates ⁽²⁾
(ZAR, including value-added tax)		
Telkom-to-VANS retail rate		
Termination rate paid to VANS ⁽³⁾	n/a	n/a
Retention rate	0.50	0.50
VANS-to-Telkom calls (Local)		
Termination rate paid to Telkom	0.32	0.16
VANS-to-Telkom calls (Long distance)		
Termination rate paid to Telkom	0.50	0.25

Notes:

- (1) Monday to Friday 7 a.m. to 7 p.m.
- (2) Monday to Thursday 7 p.m. to 7 a.m. the next morning and Friday 7 p.m. to Monday 7 a.m.
- (3) Telkom's fixed-to-VANS retail rate varies based on the termination rates charged by the various VANS to Telkom.

An interconnection agreement was signed between Telkom and Sentech on June 1, 2007 which provides for the termination by Telkom of calls brought into the country by Sentech pursuant to its international telecommunication gateway service license. Pursuant to this agreement, Telkom charges Sentech the same termination rates as it charges Neotel described above. As Sentech's license allows it to provide a carrier of carriers service to other operators, it does not have end-users within the country, and the interconnection agreement therefore does not provide for the termination of calls on Sentech's network. It does however provide for either operator to transit international traffic via the other if they so require. Physical interconnection is currently in the process of being established.

Data tariffs

We charge monthly fees for leased lines, which vary based on bandwidth and distance, and monthly service charges for ADSL, which are not distance dependent. The following table sets forth the monthly tariffs for our data leased lines using 20 km distances and ADSL service as of September 1, 2005, August 1, 2006, August 1, 2007 and our proposed tariffs as of August 1, 2008 based on our tariff filing with ICASA in June 2008. Subscription to ADSL service also requires the subscription to a PSTN postpaid line.

	As of September 1, 2005	As of August 1, 2006	As of August 1, 2007	As of August 1, 2008
	(ZAR, including value-added tax)			
ADSL installation charges				
HomeDSL 192/384/512/1024 ⁽¹⁾	404	437.5	490	543.91
BusinessDSL 512/1024 ⁽¹⁾	404	437.5	490	543.91
ADSL access rental charges				
HomeDSL 192	270	245	n/a	n/a
HomeDSL 384	359	245	152	152
HomeDSL 512/BusinessDSL 512	477	362	326	326
HomeDSL 1024/BusinessDSL 1024 ⁽¹⁾	680	516	413	413
Diginet (64 Kbps)	2,214	2,160	2,039	1,985
Diginet Plus (512 Kbps)	5,245	5,067	4,658	4,493
ATM Express				
2 Mbps – Bronze	11,953	10,827	9,747	9,435
2 Mbps – Silver	15,418	14,120	12,711	12,319
34 Mbps – Silver	89,613	81,059	72,955	70,648
140 Mbps – Silver	296,246	255,460	229,908	222,610

Notes:

(1) HomeDSL 1024 and BusinessDSL 1024 were launched in September 2005. These amounts represent the tariffs at date of service launch.

Managed data networking services are billed on a monthly basis and vary by customer depending on the particular services provided and the number of network sites under management.

Sales and marketing

We group our fixed-line customer base into the following three categories in order to more effectively target and service our customers:

- business customers;
- mass markets, including small business and residential customers; and
- payphone customers.

Business customers

Business customers are comprised of global and corporate customers, business and government customers and wholesale customers segments. We have a division for global and corporate customers, one for business and government customers and one for wholesale customers. Our marketing departments are split into two divisions: retail marketing, which supports the global and corporate business and government customers and wholesale marketing, which supports our wholesale customers. Our business customer category accounted for approximately 70.2% of our total fixed-line operating revenue in the year ended March 31, 2008 and approximately 40.3% of our total fixed access lines as of March 31, 2008.

Global and corporate

Global and corporate customers comprise over 330 of South Africa's largest financial, retail, manufacturing and mining companies with domestic and international operations. Global and corporate customers accounted for approximately 17.6% of our total fixed-line operating revenue in the year ended March 31, 2008 and approximately 10.0% of our total fixed access lines as of March 31, 2008. We have increased our sales and marketing efforts aimed at our large global and

corporate customers in order to continue to improve customer loyalty. We offer tailored packaged solutions and seek to enter into long-term relationships with our global and corporate customers in order to maintain our leadership position in this customer market. We market and sell our products and services to these customers primarily through corporate account managers, supported by a team of specialists in the field of pre-sales consulting, project management and post-sales service managers.

Business and government

Business and government customers comprise approximately 277,000 large and medium business and governmental accounts. We estimate that Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line operating revenue in the year ended March 31, 2008 and at least 4% of our total fixed access lines as of March 31, 2008. We also offer tailored packaged solutions and seek to enter into long term relationships with our government and larger business customers. In addition, we established a customer relation program to focus on retaining business customers. We market and sell our products and services to these customers primarily through customer account managers in the government section and sales representatives in the business segment, the Telkom Business Call Center and customer service branches. As of March 31, 2008, we had approximately 137 Telkom Direct shops located throughout South Africa to assist our business customers in finding the products and end user equipment that best fits their needs. We have been successful in signing our business customers to long term service agreements. We have also been successful in growing our ISDN, internet access, PABX, satellite and data, including ADSL, products and services.

Wholesale

Wholesale provides services to any national or international duly licensed intermediary. Wholesale customers comprise mobile operators, domestic licensed network operators, international operators and service providers and domestic value-added network service providers. The wholesale market segmentation will change with the license conversion. We expect wholesale revenue from domestic operators to increase with the expansion of Neotel's operations and the further liberalization of the South African telecommunications industry, although we believe that with the advent of the Electronic Communications Act, competition in this sector will increase and there will be downward pressure on prices. Products sold to wholesale customers primarily include national and international voice termination services, data services and international transiting services. We also provide internet protocol services to internet service providers. We are currently focusing on developing wholesale products that cater to the needs of a more liberalized fixed-line market in South Africa. We are also expanding our wholesale product portfolio to go into non-traditional markets outside of South Africa. Our marketing and sales strategy for the wholesale services market is to be the carrier of choice for other operators and the connectivity provider of choice for domestic and other African service providers. We believe our digital network both in South Africa and in our international undersea cables provides a solid foundation from which we can leverage these services. We continuously revisit destinations for wholesale voice termination services. We intend to focus on expanding our relationships with international operators and further increasing the penetration of our transiting and connectivity services to international operators, including other African operators, for traffic into and out of Africa.

Mass markets

Mass markets comprises small business customers and residential customers, including both prepaid and postpaid residential customers using PSTN, ISDN and ADSL services. Small business customers comprise approximately 297,000 accounts.

Mass market customers accounted for approximately 28.2% of our total fixed-line revenue in the year ended March 31, 2008 and approximately 56.6% of our total fixed access lines as of March 31, 2008. Residential customers accounted for approximately 49.1% of our total fixed access lines as of March 31, 2008. Prepaid residential customers accounted for approximately 16.4% of our total fixed access lines as of March 31, 2008, compared to approximately 17.1% of our total fixed access lines as of March 31, 2007. Small business customers accounted for approximately 7.5% of our total fixed access lines as of March 31, 2008.

We are seeking to compete in the residential market by offering communications packages focused on improving convenience and security to enhance consumers' lifestyles, while at the same time increasing revenue per customer. We intend to continue to introduce calling plans that target high use customers and are designed to increase consumers' value for money. We market and sell our residential products through our customer call centers, Vodacom's customer service branches and Telkom Direct shops, the South African Post Office, independent distributors and vendors and through telemarketing. We are focused on increasing the penetration of our ADSL services to retail and high-end residential customers through targeted direct advertising to high internet usage subscribers.

Payphone customers

Payphones comprise our public and private payphone units. Payphones accounted for approximately 1.6% of our total fixed-line revenue in the year ended March 31, 2008 and approximately 3.1% of our total fixed access lines as of March 31, 2008.

We seek to provide easy access to our services through the effective placement of our phones and phonecard outlets in high traffic areas, while cutting costs by removing non-profitable pay phones. Our key focus area is the premier market, which includes municipalities, prisons, gas stations, shopping malls, airports, and train stations. In furtherance of this goal, we target and enter into nationwide contracts with multi location telephone providers to ensure wider distribution of our payphones. We market and sell our payphone products through our regional sales force and call centers. In order to improve efficiencies in public services and telephony, Telkom implemented a quality management system in compliance with the South African Bureau of Standards ISO9001:2000 standards, which was certified by the South African Bureau of Standards in 2003. The aim was to develop products and services based on these quality standards and improved processes in an effort to grow and improve public telephony revenues and create a customer relations center through a call center. An income management center, which is responsible for coin collections, and banking and a dedicated fault handling center for the maintenance of payphone equipment was established.

Customer care and service

We know that customers do business where their worth and uniqueness is valued and where it is easy for them to do business. The customer centricity program is making progress to ensure that the whole business is wrapped around the customer, steering away from being a predominantly product-centric organization. A key enabler of this is the establishment of a customer data environment that for the first time will provide Telkom with a single 360 degree view of the customer to enable refined customer segmentation based on value, behavior and needs. This will transform the business to the extent that the customer is at the centre of all decision making in the Company.

In future the outcome of the customer analytics approach will be a refined segmentation structure for the organisation, as well as a Marketing structure built around the different customer groups, and not around our products as in the past. This will provide the much needed end-to-end ownership of, and accountability for, the customer experience with Telkom. The segmentation outcome will also provide a consistent prioritization framework across the organisation for differentiated service and experience delivery to different customers.

We offer a number of customer care initiatives tailored to our different customer segments. We allocate service managers to each of our global and corporate customers, who are responsible for ensuring that all new installations and repairs are performed in a satisfactory and timely manner. In addition, in March 1998 we established a corporate customer call center in Cape Town for our global and corporate customers, capable of making minor infrastructure changes from a single location. We also use professional program managers to manage the implementation of complex network solutions. We offer service level agreements on a number of our existing data communications products where technology allows us to do so and our goal is to introduce service level agreements on all new data communications products in the future. We confer VIP status on each of our global and corporate customers and other selected customers that allows them direct access to key people within our organization to ensure quick resolution of any problems they may have regarding our products and services. We also intend on launching a wholesale call center for use by our expanding base of wholesale customers.

Our Telkom business call center provides customer support for our medium and small business customers. We also offer a broad range of internet based customer care tools to allow customers to manage their relationship with us more conveniently. The Telkom and TelkomInternet websites offer online services such as fault reporting for voice services, automated online registration and password changes for internet services, electronic bill presentation and an email query facility.

We also provide our customers with a free SMS payment reminder where a cellular phone number is provided to avoid suspension of late paying customers.

Network

Network service quality

We have made significant investments in our national network operations center and our data center designed to increase our ability to identify and anticipate future customer needs more rapidly and to provide the appropriate solutions and services. In order to take advantage of economies of scale in scheduling, we have consolidated our six voice installation and fault management centers into two centers to address faults, installation and service appointment scheduling and have consolidated our six data installation and fault management centers into two centers.

The following table sets forth information regarding Telkom's service delivery measurements during the periods indicated.

	Year ended March 31,		
	2006	2007	2008
Residential voice			
% cleared in 24 hours	47%	50%	38%
Faults per 1,000 lines	470	485	476
% installed in 5 days	49%	81%	54%
Business voice			
% cleared in 24 hours	61%	66%	50%
Faults per 1,000 lines	300	328	264
% installed in 5 days	63%	83%	63%
Data subrate			
% cleared in 24 hours	92%	84%	93%
Faults per 1,000 lines	801	870	875
% installed in 10 days	40%	41%	19%
ADSL business			
% cleared in 24 hours	54%	33%	42%
Faults per 1,000 lines	480	575	575
% installed in 20 days	56%	76%	56%

Residential and business voice orders installed in five days and faults cleared in 24 hours declined in the 2008 financial year due to the increased focus on ADSL services. The ADSL installed base grew by 61% during the 2008 financial year and 78% during the 2007 financial year. This growth resulted in an increase in the number of reported faults and impacted on the time taken to clear faults. This growth also impacted on data subrate services as they share ADSL resources. The increase of approximately 20% in network failures during the 2007 financial year, contributed to the increased subrate faults per 1000 lines. Network failures consist of cable breaks, cable theft and failures on other core network elements. We implemented a self install option for ADSL, which had a positive impact on ADSL installation.

We have changed the measurements of the installation measures as indicated in the table below. The change in the methodology is to more accurately reflect on the demands placed on us by customers. In addition we have differentiated between those services that require network or infrastructure build activity compared to those that can be provided by flow-through means, that is where no network or infrastructure build is required. This separation provides insight as to how Telkom is addressing the demands in both flow-through as well as build instances and provides focus on the two processes with the objective of reducing cycle times for both processes. It removes the potential masking of the one process over the other.

	<u>Year ended March 31,</u>	
	<u>2007</u>	<u>2008</u>
Residential voice		
% installed within 28 working days initial timeframe		
– No build	84%	91%
% installed within 80 working days initial timeframe		
– Build	73%	82%
Business voice		
% installed within 21 working days initial timeframe		
– No build	77%	85%
% installed within 70 working days initial timeframe		
– Build	81%	84%
Data subrate		
% installed within 30 working days initial timeframe		
– No build	49%	48%
% installed within 90 working days initial timeframe		
– Build	54%	79%
ADSL business		
% installed within 21 working days initial timeframe		
– No build	56%	79%
% installed within 60 working days initial timeframe		
– Build	68%	66%

We expect to continue to change the method in which we measure performance to align with changes in the information communication technology industry that focus more on broadband and data services and also to support Telkom's customer centricity drive.

Infrastructure and technology

The following table sets forth information related to the digitalization and upgrade of our network at the dates indicated.

	<u>As of March 31,</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Digitalization (percentage of lines) . . .	99.9	99.9	99.9	99.9	99.9
ATM switches	189	202	212	228	255
Digital exchange units	4,321	4,339	4,427	4,448	4,463
Internet Protocol Routers	32	70	76	79	158

National network operations center

We have a state-of-the-art national network operations center, capable of monitoring our core network and coordinating and dispatching core network repair personnel from one control point based in Centurion, Pretoria. Our national network operations center enables us to be more proactive in anticipating, localizing and isolating problems, such as congestion and cable breaks, so that they can be corrected promptly. The national network operations center is capable of providing up to the minute, real-time visual summary of the status of our entire network. Our national network operations center includes an emergency restoration and control center that manages all network failure restorations. Network service management specialists are able to obtain up to the minute information from this center in order to proactively update global and corporate customers who have services affected by any major network failure, including voice and data network services.

Switching network

An important part of our fixed-line network modernization program has been switch digitalization. As of March 31, 2008, 99.9% of our telephone access lines were connected to digital exchanges. Switch digitalization has made our network more efficient and resilient and has enabled us to offer new value-added voice and data services, including caller line identification, electronic call answering and the provisioning of innovative billing systems. Our switching network infrastructure is based on a two-tier structure utilizing large capacity digital switches. The upper, or primary, tier is used for the switching of long distance and international traffic and the lower, or secondary, tier is used for the switching of regional and local traffic.

The primary tier consists of eight switching centers and two international switching centers. Each of the switching centers includes two switches which are geographically diverse for redundancy purposes and in order to handle larger volumes during peak times. Each of the primary switching centers is interconnected by at least two self healing diverse routes. Interconnection between our network and the networks of the three South African mobile operators and Neotel takes place at primary level switches in the main centers. Two international telephone switching centers each containing one switch, serve as the international gateways. Secondary switching centers are connected to the primary switching centers by at least two self-healing diverse routes. Each secondary switching center includes one switch with internal redundancy mechanisms.

Transmission network

Our national transmission network comprises a synchronous digital hierarchical and wave division-multiplexing network. Both the primary and the secondary tier are based on a combination of ring and meshed topology, which provides a dual path to each connection point. The ring topology consists of interlocking self-healing rings, while the meshed topology consists of high capacity digital cross-connects and next generation synchronous digital hierarchy equipment, connected in meshed fashion via high capacity digital links. The primary tier consists of eight stacked rings and fifteen digital cross-connects, while the secondary tier consists of 544 rings and 85 digital cross-connects. The next generation synchronous digital hierarchy footprint consists of 460 elements across the primary (national) and secondary (local) tiers. The synchronous digital hierarchy network, with its network management capability, provides for faster provision and modification of service, improved grade of service and lower maintenance costs. Telkom is investing in additional capacity to meet requirements for growth in data traffic and leased lines.

Metro Ethernet

In the 2007 financial year, we began deploying Metro Ethernet, a next generation network technology that provides cost effective, high speed, fiber based connectivity in metropolitan areas. In addition to increased bandwidth capacity, the technology also offers features required for next generation services such as bandwidth on demand and internet protocol TV, or IPTV.

The new network will be used to support and enhance existing customers' services such as broadband access via ADSL and WiMAX technologies. New corporate and service provider wholesale services are expected to be developed that draw directly from the new feature set offered by Metro Ethernet.

Metro Ethernet is currently being rolled out in the metropolitan areas of the Western Cape, Northern Gauteng (Pretoria), Gauteng Central (Greater Johannesburg), KwaZulu-Natal (Durban) and Eastern Cape (Port Elizabeth).

Access network

Access for our PSTN and data networks is primarily via copper. Telkom is still deploying additional access network infrastructure to enable the provisioning of ISDN and xDSL services on demand. Fiber in the loop, or FTTx, with optical fiber distributed multiplexors and cross connects are also provided to mobile operators, corporate and large businesses, office parks and shopping centers. Point-to-point radio systems are also provided for non-fibered areas such as rural areas and for redundancy in our core network. In addition, Telkom is focusing on the rehabilitation of its existing copper and fiber access network infrastructure to improve the reliability and quality of its network and to make it broadband friendly. Viable areas, which are out of reach of the broadband footprint, will be serviced by appropriate wireless local loop (point to multipoint) technologies.

Asynchronous transfer mode network

We have rolled out an asynchronous transfer mode network to deliver broadband services to global and corporate customers. As of March 31, 2008, we had 255 switches in our asynchronous transfer mode network. The present available bandwidth between the core switches on our asynchronous transfer mode network is 224 STM-1s or 33.5 Gbps, while the available bandwidth between the access switches, metropolitan switches and core switches is 760 STM-1s or 113.8 Gbps. Access to our asynchronous transfer mode network is primarily provided via fiber and synchronous digital hierarchy.

Public broadband internet protocol network

Our public broadband internet protocol network comprises a three tier hierarchical network consisting of eight core sites, 30 edge sites and 65 access locations, including over 26,796 modems with an estimated dial-up base of greater than 500,000 customers, including Telkom and other internet service providers as of March 31, 2008.

Telkom has designed its internet protocol network as the core for new products and services with multi protocol label switching, or MPLS, deployed in the network. 15,000 layer three virtual private network or VPN endpoints have been deployed.

Telkom currently has a total bandwidth of 4.5 Gbits to a total of six international points of presence. One is located in Amsterdam, two in London, one in New York, one in Ashburn (Washington D.C.) and one in Hong Kong. Internet protocol transit bandwidth from the six international points of presence to global tier 1 service providers amounts to 4.0 Gbits.

Broadband services

Telkom's Broadband services comprise xDSL through copper as a wireline access and WiMAX as wireless access. We are currently deploying fiber to the curb as well as to our large customers.

We introduced ADSL as a wireline access technology in August 2002 for our internet protocol network. The ADSL roll out has been designed to provide maximum coverage in terms of prospective ADSL customers. Our ADSL footprint covers approximately 92.2% of our customer base and consists of 2,660 digital subscriber line access multiplexers, serving approximately 412,190 customers as of March 31, 2008, an increase from 86.8% of our customer base and 2,237 digital subscriber line access multiplexers, serving approximately 255,633 customers as of March 31, 2007, and 143,509 customers as of March 31, 2006. This network is managed from our national network operations center.

Voice over internet protocol network

Softswitch capability is being deployed initially as an overlay network to enable the communication of voice over internet protocol services. Our current voice over internet protocol network terminates calls for numerous international voice carriers into our fixed-line network. Call centers from around the world that have relocated to South Africa due to favorable economic conditions and lower resource costs are also hosted on our voice over internet protocol network. Telkom has points of presence for connectivity to the voice over internet protocol network in Amsterdam, London, New York, Ashburn (Washington D.C.), Hong Kong, Zambia, Zanzibar, Tanzania, Senegal and Madagascar. The network can terminate 69 media gateways, or approximately 32,700 voice circuits and offers H.323, SIP, ISDN or SS7 interconnection options. The media gateways compress the traditional voice channels of 64 Kbps to 8 Kbps channels thus enabling us to reduce the cost of international calls, while maintaining the perceived voice quality of a 64 Kbps call.

WiFi

In February 2005, Telkom launched a hot spot service that provides wireless data access service by using 802.11b/g WiFi technology. Any user with a wireless enabled notebook computer or personal digital assistant can connect to the service while in the coverage area. WiFi is mainly targeted at restaurants, hotel groups, major shopping malls and some sites on national routes. At March 31, 2008, Telkom had 237 hotspots, up from 75 at March 31, 2007.

WiMAX

Telkom has launched services based on fixed (IEEE 802. 16-2004) WiMAX technology. This technology is a standard based broadband wireless access technology that provides throughput connectivity in a point-to-multipoint configuration. The technology is designed to enable Telkom to compliment its ADSL service offering in metropolitan and rural areas and in areas where ADSL services are not yet available. Telkom is also pursuing the provision of a voice service to compliment the broadband service offering and a trial is currently in progress. If successful, this will be used to provide service in areas where Telkom experiences problems with the fixed-line copper network.

Telkom has a memorandum of understanding in place with Intel Corporation for the interchange of information pertaining to WiMAX in order to keep up with the latest WiMAX developments. Telkom is a member of the WiMAX Forum and actively monitors the Forum for any developments.

International connectivity

We offer international connectivity from two international switching centers to terrestrial, satellite and submarine cable routes. Further international connectivity has been provided with the deployment of very small aperture terminals and other satellite transmitters located at strategic locations throughout the country. Telkom has satellite bandwidth available from Intelsat, SES Skies and HellaSat. Telkom also has access to satellite capacity from 64 Kbps to 45 Mbps upon request. We are currently making use of satellites in 15 orbital slots for services within and from or to South Africa. The Indian Ocean region can be connected to two satellites and the Atlantic Ocean region can be connected to three satellites. Satellite access is provided from our earth stations at Hartebeeshoek, west of Pretoria, Crowthorne in Gauteng, Malvern in Durban, Chelsea in Port Elizabeth and Klipheuwel in Cape Town. Currently we have satellite voice and data connectivity to locations not reachable via undersea cable.

We have investments in three cable systems connecting Africa and international destinations. A submarine cable system, SAT-2, exists between Cape Town and Europe. We are the largest capacity owner on the SAT-2 submarine cable system with the right to use approximately 65% of the capacity. Consistent with our strategy of increasing international carrier traffic on our network, we have

invested approximately U.S.\$95 million in the SAFE and SAT-3/WASC submarine cable systems that were introduced into service during 2002. The cable systems provide fiber optic connectivity between South Africa and international destinations. These cable systems utilize the latest technology available in order to provide improved high speed voice, data, video and other on demand high bandwidth services and have increased fiber optic bandwidth between Europe, Asia and Africa. We have the right to approximately 24% of the capacity on the SAFE and SAT-3/WASC submarine cable systems, making us the largest capacity owner in these cable systems out of the 35 telecommunications operators who have invested over U.S.\$700 million in these systems. The length of the SAFE cable is approximately 13,100 km and the SAT-3/WASC is approximately 14,300 km. These cables are expected to be upgraded to approximately three times their current available capacity during the 2009 calendar year in anticipation of the 2010 World Cup demand.

In addition, on March 9, 2007 the Eastern Africa Submarine System, or EASSy, supply contract was signed by a 23-member EASSy consortium with Alcatel-Lucent. The supply contract came into force on March 20, 2008 and manufacturing has already commenced. Telkom invested approximately US\$23 million and will have an ownership interest in the EASSy cable system of approximately 8%. The EASSy cable will connect to South Africa at the same landing point as the SAFE cable in Mtunzini, north of Durban. Telkom will seek to provide network operations center and administrator services to the EASSy consortium. Telkom also expects to be in a position to sell onward connectivity to Europe, America and Asia to East African operators using the EASSy cable. Telkom's primary use for the EASSy cable will be to establish and improve its East African fiber connectivity and also to use EASSy as an alternative global diverse route out of South Africa.

The 9,900 km high performance fiber optic cable is being deployed to link eight countries from Sudan to South Africa, via Somalia, Kenya, Tanzania, Madagascar and Mozambique. Landings are planned for Port Sudan, Sudan; Djibouti; Mogadishu, Somalia; Mombasa, Kenya; Dar Es Salaam, Tanzania; Tollary, Madagascar; Maputo, Mozambique; and Mtunzini, South Africa.

Based on Alcatel-Lucent's submarine and terrestrial optical solutions, EASSy will connect the eastern African seaboard as well as landlocked countries, to the rest of the world. It will also provide connectivity across the continent to support the increase in local traffic from existing and new broadband services. EASSy is expected to provide Telkom the opportunity to expand its footprint further into Africa, creating further opportunities for access to future potential markets. In delivering a regional capacity of up to 640 Gbit/s. By complementing existing undersea networks, EASSy is being designed to provide continuity of service in times of natural disasters and to alleviate congestion during periods of peak traffic.

By interconnecting with Sea-Me-WE 3, Sea-Me-We 4 and SAT-3/SAFE, the EASSy undersea cable will also serve as a supporting infrastructure for these networks. Landlocked states such as Ethiopia, Botswana, Rwanda, Burundi, Uganda, Zambia and Zimbabwe will also be able to access the EASSy cable. The EASSy project is scheduled for completion by the middle of the 2010 calendar year.

Information technology/operations support systems

The quality of our operations support systems, which store, manage and analyze essential business information, is critical to the success of Telkom's business. Telkom's operations support systems permit Telkom to make timely and informed business decisions and respond to our customers' needs with tailored solutions. Telkom has dedicated significant resources to the design and implementation of new operations support systems based on a comprehensive and well defined information technology strategy.

We have a data center in Centurion, Pretoria in order to improve internal information technology service levels and offer external internet and related services such as managed data center hosting

services. The center is safeguarded by state of the art environmental and security systems capable of performing maintenance without impacting service or availability. The complex houses a 2,100 square meter data center and over 9,000 square meters of usable office space and includes a twenty four hour command/operations center. The command center contains a large video wall that enables personnel to keep abreast of the current state of our information technology infrastructure twenty four hours a day.

Our data center has been leveraged to include both our internal support systems and our external hosted offerings. We have a business continuity and disaster recovery plan utilizing both our Centurion and its sister data center site in Bellville locations for redundancy purposes. Both operations can be monitored and operated from either location via service management tools and data for critical systems is transferred between these sites for rapid disaster recovery should it be necessary. Our power support systems have also been upgraded to add an additional level of environmental redundancy. This redundancy is shared between the data center and the new national business solutions center building to reduce cost. We are currently expanding the Bellville center with an additional 1,500 square meters of computer room space.

Telkom's national business solution center was built alongside the national network operations center and the data center providing Telkom with a centralized information technology backbone. The national business solutions center was commissioned and we are currently hosting 51 out of our 59 hosting customers in the national business solutions center. Both the data center and the national business solution center are operated from a command center and now provides an additional 3,000 square meters of computer room space designed to the same specifications as our primary data center requirements. In addition, this new facility gives Telkom the ability to provide high availability configurations that are split between both buildings for redundancy purposes. Network reliability has also been enhanced by creating a totally redundant, shared network environment between the data center, the national business solution center building and the national network operations center.

Telkom is currently in the process of implementing a number of management information and other operating support systems in order to better respond to the increased liberalization of the South African communications industry. These systems are being designed to integrate with Telkom's billing and other management information systems, to provide Telkom with the capability of providing comprehensive and detailed operating information, a single bill for customers with multiple locations and products and configuring products and services across voice and data domains. The nature and the current status of these systems are as follows:

- Workforce management system – an automated mechanism to manage and optimize Telkom's workforce utilization. The first phase of the workforce management system was completed in the 2006 financial year. The roll-out of the second and third phases of the workforce management system commenced during the 2007 financial year and was completed in the 2008 financial year.
- Customer management system solution – a system to unify both voice and data customers, to manage and maintain all customer information and interactions and to produce an optional single bill for customers' voice and data services or products. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year. The implementation for voice related products and services commenced during the 2008 financial year and is targeted for completion in the 2009 financial year.
- Product catalogue (in conjunction with the customer management system solution) – a system to configure and maintain products and services for both voice and data domains, to bundle products and groups of products across voice and data product and service domains, and to provide contract management functionalities for both voice and data services or products and

customers. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year.

- The implementation for voice related products and services commenced during the 2008 financial year and is targeted for completion in the 2009 financial year.
- Order management system (in conjunction with the customer management system solution) – a system to provide end-to-end management of customer orders. The implementation of this solution for Telkom's customers with non-voice related products and services was successfully implemented during the 2007 financial year. The implementation for voice related products and services commenced during the 2008 financial year and is targeted for completion in the 2009 financial year.
- Fault management solution – a system to accelerate the real-time and accurate detection of problems in Telkom's network by event collection, filtering and correlation. The first phase was successfully implemented in the national network operations center in the 2007 financial year with active surveillance now being performed on 19 technologies and the next phase is planned to be completed in the 2009 financial year.
- Next generation operation support system – Telkom's current operating support system needs to be evolved and developed to a new next generation operating support system to integrate and support Telkom's conversion to a next generation network. The first phase was a comprehensive scoping exercise that was launched in the 2007 financial year. The second phase will entail a program of various projects dealing with the implementation of solutions specifically designed to support next generation products and services.

Competition

Competition in the South African fixed-line communications market is intense and is increasing as a result of the Electronic Communications Act and determinations issued by the Minister of Communications.

The new licensing framework included in the Electronic Communications Act is resulting in the market becoming more horizontally layered with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business. In addition, pursuant to the Telecommunications Act and determinations issued by the Minister of Communications:

- mobile cellular operators are permitted to obtain fixed telecommunications links from parties other than Telkom;
- VANS operators and private network operators are permitted to resell the telecommunications facilities that they obtain from Telkom;
- VANS operators are permitted to allow their services for the carrying of voice, including voice over internet protocol;
- Telkom is no longer the sole provider of facilities to VANS operators; and
- licensing for the provision of payphone services has been expanded.

See "Regulation and License Requirements".

We compete primarily on the basis of customer service, quality, dependability and price in those areas where we currently face competition and where we expect to compete for public switched telecommunications services in the future. We intend to introduce new products and services and tariff structures with the aim of maintaining and gaining revenue.

Mobile competition

Telkom competes for telephone customers with the three existing mobile operators, Vodacom, our 50% owned joint venture, MTN and Cell C. MTN is a public company listed on the JSE Limited and Cell C entered into a joint venture with Virgin Mobile, which has further increased competition. Telkom also competes with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. In recent periods, our fixed-line business has experienced significant customer migration from our fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service. ICASA has begun a review process of mobile termination rates aimed at reducing high mobile interconnect charges, which, once completed, is also likely to impact upon Telkom's own termination rates and interconnection revenues.

Data competition

We also face increased competition from mobile operators, value added network operators and private network operators as a result of determinations by the South African Minister of Communications in September 2004 and the Electronic Communications Act, which came into effect on July 19, 2006.

Neotel and VANS providers such as Internet Solutions are our main competitors in the data market. Neotel is entering the market through competitive pricing and niche products such as fiber connections and rings. VANS provide competitive internet protocol virtual private networks and internet service provider services to the business segment. Consumer orientated internet service providers such as MWeb are our main competitors in the consumer internet market.

In addition, our data services have faced increased competition from iBurst, a competitor to Telkom in the wireless area that offers competing broadband services, and, to a lesser extent, Sentech, which owns and operates satellite transmission systems, a packaged, always-on, bidirectional broadband service via satellite and a wireless high-speed internet service offering. Similarly, the mobile operators' 3G, HSDPA and EDGE networks also enable customers to browse the internet via mobile broadband services, which provide increased competition for our data services. The mobile data providers have reduced prices significantly creating price competition in our data markets. We believe that VANS operators and internet service providers will increasingly move into the corporate and voice services market, while telecommunications service providers try to expand into the managed data network and international traffic markets. We expect that alliances will be forged between VANS operators, telecommunications service providers and content providers to concentrate on the delivery of converged services within a few years. Domestically, expansion into new markets by VANS and mobile companies will take place, while development of new products and services will intensify the competition. We expect competition to further increase as a result of consolidation in the market, with competitors growing through mergers, acquisitions and alliance-forming activity. The entry of multinational corporations to South Africa is expected to be a further incentive for global communications operators, which already service these corporations abroad, to establish or enhance their presence in South Africa.

Competition in the data market is expected to increase as a result of the VANS providers' ability to deliver complex managed data solutions and integrated information communications technology solutions, as well as expected future alliances between the VANS and fixed and mobile operators. Technological advances will also enable more and more convergence and integration which in turn will enable more effective competition and usage of bandwidth.

As competition increases in the South African market, South African telecommunication service providers, including Telkom, are expected to increasingly look to other developing markets for new revenue streams, particularly in sub-Saharan Africa. Internationally, Telkom's new Africa Online business already competes with Internet Solutions and MTN Network Solutions. In addition, Verizon is already present in a number of other African markets.

Fixed-line voice competition

In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to Neotel that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. On March 19, 2008 Neotel announced that the Competition Tribunal of South Africa had approved its acquisition of Transtel without any conditions. Neotel was licensed on December 9, 2005 and commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to large corporations and other licensees.

Neotel has started providing services to corporate customers and to licensees. On April 25, 2008, Neotel announced that the first of its consumer products were available to limited parts of Johannesburg and Pretoria. The Government has created an infrastructure company, Infracore, which stated it would provide inter-city bandwidth at cost based prices to Neotel, and later to the rest of the industry, which will further compete with our communications network. Infracore was established by an Act of parliament: the Broadband Infracore Act, No. 33 of 2007. The Electronic Communications Act, No 36 of 2005, has been amended by the Electronic Communications Amendment Act, No. 37 of 2007 to permit electronic communications licenses to be issued to Infracore.

A process to issue additional licenses to small business operators to provide telecommunications services in underserved areas with a teledensity of less than 5% commenced in 2005 and is continuing. The Minister of Communications has identified 27 of these underserved areas. ICASA has issued licenses to successful bidders in seven of them and the Minister has issued invitations to apply for licenses in 14 additional areas. In August 2006 ICASA recommended to the Minister that licenses be granted to successful applicants in 13 of these areas. While it was expected that further licenses would be issued in the 2007 calendar year, none were issued. The Minister of Communications, has issued a policy direction to ICASA directing it to, where there is more than one license in a province, merge the licenses and issue one Provincial Under-Served Area Network Operator, or PUSANO license. None of these consolidated licenses have yet been issued by ICASA.

Telkom's fixed-line voice business is expected to be further impacted by continuing developments of voice over internet protocol and by the rollout of limited mobility services. Wireless operator iBurst has started to offer portable voice services over their wireless internet services. Additionally, voice over internet protocol and other operators with international gateway licenses are expected to create increased competition for Telkom's fixed-line voice business in carrying international traffic in and out of South Africa.

We expect that the introduction of number portability and carrier pre-selection could further enhance competition in our fixed-line voice business and increase our churn rates. As competition intensifies, the main challenges our fixed-line voice business faces are continuing to improve customer loyalty through improved services and products and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate pressure on our overall average tariffs, a reduction in our market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

Procurement

We utilize a transparent multi disciplined approach to purchasing and supplier management in order to ensure that we receive the best products and services from reliable suppliers at the best overall price. We have established cross functional sourcing teams staffed with individuals from different areas of our organization to evaluate and make recommendations on certain bids, which, depending on value, require the further approval of our executive committee and board of directors

and notification of certain approvals to our board of directors. Bid requests are published in our weekly tender bulletin and on our web site. We have adopted affirmative procurement policies that favour historically disadvantaged suppliers. We seek to utilize at least two suppliers for all critical equipment where possible in order to minimize supply risk. In the year ended March 31, 2008, our top twenty suppliers accounted for approximately 57% of all purchases and our main supplier was Total Facilities Management Company (Pty) Limited, or TFMC, which accounted for approximately 14.5% of all expenditure. During the year ended March 31, 2008, Telkom directed R9.2 billion to black economic empowerment suppliers, representing approximately 71% of Telkom's total procurement spending, compared to R8.8 billion and R6.4 billion in the years ended March 31, 2007 and 2006, respectively.

Mobile communications

Overview

We participate in the South African mobile communications market through our 50% interest in Vodacom. Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 55% as of March 31, 2008 based on total estimated customers. Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. Vodacom's other shareholder is Vodafone, which beneficially owns 50% of Vodacom.

South Africa

Vodacom had approximately 24.8 million customers in South Africa as of March 31, 2008. As of March 31, 2008, Vodacom's 7,300 base stations were capable of reaching approximately 98% of the country's population based on the last official census conducted in 2001 and approximately 72% of the total land surface of the country. The estimated penetration rate for mobile communications in South Africa has increased to approximately 94% as of March 31, 2008.

Vodacom offers public mobile communications services which are based on second generation Global System for Mobile Communications, or GSM, and third generation Universal Mobile Telecommunication System, or UMTS, mobile communication standards. Vodacom was granted a mobile cellular telecommunications license in South Africa in September 1993 and commenced service in June 1994. This mobile cellular telecommunications service license was confirmed and reissued in August 2002 pursuant to the Telecommunications Act, and was renewed until May 30, 2024 on the same terms and conditions as the existing license. In addition, Vodacom was awarded a permanent 1,800 MHz license and a 3G spectrum license during the 2005 financial year.

Products and services

Vodacom offers a wide range of mobile voice and data communications products and services, including value-added services. Vodacom's services also include the sale of handsets. Vodacom has a history of innovation as illustrated by its record of product offerings. Vodacom was the first mobile communications network operator in the world to offer prepaid mobile communications services on an intelligent network platform and to offer its customers coverage across the whole of Africa where commercial GSM roaming is available. Vodacom was also the first mobile communications network operator in South Africa with nationwide coverage. Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom entered into an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services.

Significant products launched include data, voice and SMS bundles for prepaid, Top Up and contract customers. Vodacom continued to launch and support Vodafone products such as Vodafone Simply, welcome tones, extended Mobile TV to 23 channels and Vodafone live! release 7 with its simple, tabular, user friendly approach. A number of corporate and business products were also

launched, ranging from e-mail and enhanced voicemail to corporate access points which enhance the security of mobile customers using a 3G/HSDPA data card remotely and in May 2008, High Speed Uplink Packet Access, or, HSUPA, an enhancement of Vodacom's HSDPA service.

Vodacom Converged Solutions, subsequently renamed Vodacom Business, was formed in the 2007 financial year to provide converged solutions and services to corporate customers. The strategic aim of the division is to play a role in the broadband access services space, capitalize on transmission and self-provisioning opportunities, grow revenue through managed services opportunities and enhance the retention of corporate clients. The intention is to gain market traction and a customer base while developing a next generation network. Vodacom Business developed a service portfolio that includes next-generation internet protocol voice services, managed networks and infrastructure services, access services, hosting and applications. The platforms, systems and organization have been created and the initial commercial products are being marketed, with the balance of the service portfolio expected to become available online during the course of the 2008 calendar year.

On May 8, 2007 Vodacom formalized entry into the broadcasting and multimedia market by announcing that it had secured an exclusive pay TV agency agreement with MultiChoice. With DSTV Select, Vodacom and non-Vodacom customers have a choice between two DSTV Select bouquets, each offering a variety of the latest entertainment, news, sport, movies, documentaries and music channels.

In order to achieve company growth, Vodacom diversified horizontally into the internet service provider and information technology services industries in the 2008 financial year.

Vodacom will seek to continue to grow data revenues by launching useful office tools and software applications such as 3G, HSDPA, HSUPA, Mobile TV, Vodafone Mobile Connect Cards and BlackBerry®, at competitive prices. BlackBerry® Connect, as well as BlackBerry® Built-In, which enable customers to access BlackBerry® services without a traditional BlackBerry® device, have become available on top of the range handsets such as HTC, Nokia and Sony Ericsson. In the future, Vodacom intends to continue to focus on offering premier interactive voice response, premium short messaging services, general packet radio services, multimedia services, HSDPA services, HSUPA services, internet services, e-mail services and fixed-to-mobile products.

Prepaid services

As of March 31, 2008, approximately 85.3% of Vodacom's South African customers were prepaid customers. Vodacom has two prepaid products, Vodago and 4U. Vodago was Vodacom's initial prepaid product and offers two tariff plans, Vodago Standard and Vodago Smartstep. Vodacom's 4U is a prepaid per second billing product targeted at the youth market who have higher usage of SMS and a need for per second billing. Since its inception, the number of 4U customers has increased significantly and as of March 31, 2008, approximately 92.7% of Vodacom's prepaid customers were 4U customers. Vodago and 4U provide instant access to the Vodacom network and enable low volume customers to control mobile telephone costs based on usage because there are no long term contracts. Fax and certain data services became available to Vodago customers in the 2006 financial year.

In the 2008 financial year, Vodacom removed the time window for all of its prepaid offerings, thus simplifying its prepaid offering. As a result, Vodacom now offers a range of values for customers to recharge in any amount ranging from R5 to R1,000. Prepaid customers are now also able to recharge with a range of SMS bundles to suit their needs either by purchasing an SMS voucher or by purchasing their bundle using their airtime on the phone already. Vodacom also launched a Yebo4Less tariff plan in the 2008 financial year to Vodacom's prepaid customers, which offers discounts on their base call rate tariff depending on location and network capacity at the time of day. Discounts are offered ranging from 0% to 99% for on-net and off-net calls. Vodacom also offers eight

prepaid vouchers, seven of these ranging from R12 worth of airtime value and a 90 day usage time window to R1,100 worth of airtime value and a 365 day usage time window. An eighth voucher option is available for R365 that allows the customer R265 worth of airtime value and a two-year airtime window regardless of activity. Vodacom launched a Big Bonus voucher in July 2006 which has a face value of R899 and gives the customer R900 of airtime whereby the customer receives R75 of airtime credit every 30 days over a 12 month period. In November 2005, Vodacom introduced the 46664 starter pack, a Super six starter pack in which Vodacom donates a portion of the proceeds to the Nelson Mandela 46664 Foundation to help fight against HIV/AIDS. During the 2005 financial year, Vodacom introduced a new Super six 4U starter pack which changed the Vodago Super six starter pack to include free SMSs.

Recharge-related innovations in the 2005 financial year included the Yebo 5 voucher, adding SMS as a recharge channel, and the addition of electronic recharge as a service to the Vodacom4me portal. Remaining airtime value and time window are accumulated provided the customer recharges before the time window expires. The accumulated time window cannot exceed 24 months. Vodacom also offers a voucher that entitles customers to receive unlimited incoming calls for 365 days. This voucher does not entitle the customer to make outgoing calls, but can be combined with other vouchers that entitle the customer to make outgoing calls as well as accumulate time window.

A wide variety of retail outlets, such as handset dealers, gas stations, tobacco shops and post offices, sell recharge vouchers for Vodacom's prepaid customers. Recharging can also take place electronically and through the use of banking networks. Because prepaid customers pay in advance for their mobile service, the risk of bad debts is eliminated and the risk of fraud is substantially reduced. In addition, prepaid services provide cost savings to Vodacom as bills do not need to be sent to prepaid customers and handsets for prepaid customers are not subsidized. There are less service offerings for the prepaid mobile communications market than there are for the contract base market. Following the launch of 4U and Vodago Smartstep, Vodacom is continuing to implement initiatives to expand its prepaid mobile communications service offerings and to gain a greater understanding of its prepaid customer base and its requirements.

Contract subscription services

As of March 31, 2008, approximately 14.3% of Vodacom's South African customers were contract customers compared to 13.1% as of March 31, 2007 as contracts have become more affordable and tailored to different market segments. Contract subscription is typically for an initial 24-month contract. Vodacom offers residential and business contract customers a range of mobile service packages designed to appeal to specific customer segments. Vodacom offers two broad categories of contract subscription packages: consumer packages, such as Weekend Everyday, and business packages, such as Business Call. Additional packages such as Shared Talk 1500 were launched in the 2007 financial year to address the small and medium sized enterprises, or SME market. Vodacom launched the Family Top Up package in the 2004 financial year, a hybrid contract product which combines the benefits of a contract service with the financial control offered by a prepaid service and is designed to facilitate migrations to contract packages from existing prepaid packages. Vodacom's Family Top Up package has proven highly successful and continues to contribute to the revenue growth in contract customers, although the introduction of lower end packages resulted in Top Up packages representing a smaller percentage of total contract packages. As of March 31, 2008, 26.4% of Vodacom's contract customers were Top Up customers compared to 30.0% as of March 31, 2007 and 27.6% as of March 31, 2006.

The monthly subscription and call charges vary with each of the packages. All contract packages make available voice, fax and data services, voice-mail, caller identification, call forwarding, call waiting and short message service capabilities. Depending on the contract package, customers either pay a fixed monthly charge and receive a set number of free minutes or pay a monthly subscription

for access plus a per minute or per second fee. In addition, Vodamail Executive is available to all contract packages on request. This is an integrated voice and fax mailbox that offers features such as Faxmail, group distribution list and voice-mail messaging.

Community services

Vodacom has developed a number of community services telephone units that are positioned throughout communities either on an individual basis or grouped in a container under the Vodacom brand. Community service phones are purchased by local entrepreneurs who resell community phone services. Community service phones are preloaded with airtime and can be recharged electronically by telephone shop operators when the airtime on the phone expires.

The demand for community service phones has been strong since its introduction. Vodacom had deployed approximately 103,024 community service phones as of March 31, 2008, exceeding its initial aggregate license target of 22,000 community service phones. The development of community service phones has made it possible to provide mobile access to the more than 20 million South Africans who live in rural communities where there is less than one telephone line per hundred people and have improved the quality of life for many South Africans who previously had no access to telecommunications. Community service phones have also been a cost effective method of significantly increasing traffic revenue on Vodacom's network due to their low roll-out costs to Vodacom and low barriers to entry for customers. Community service phone ARPUs decreased by 23.6% to R689 per month in the 2008 financial year from R902 per month in the 2007 financial year due to increased competition, from Cell C and other products that have tariff structures that are competitive to community service plans.

Value-added mobile voice and data services

Vodacom offers an extensive portfolio of value-added mobile voice and data services, including caller identification, call forwarding, call waiting, voice-mail, entertainment, mobile information and commerce services, short messaging services, mobile multimedia services, data services, mobile internet access, fax services, e-Billing, video mail, missed call keeper, and twin call services, the latter of which enable customers to use two mobile phones under the same number. Through Vodacom's 10% investment in Wireless Business Solutions, also known as iBurst, a competitor to Telkom in the wireless area, Vodacom now supplies customers with continued high speed connectivity through broadband internet and email services. Wireless Business Solutions has a license that enables it to build a WiMax network that complements Vodacom's HSDPA wireless broadband service. Vodacom's Call Sponsor offering enables contract customers to sponsor the calls of up to three prepaid customers. Vodacom has experienced substantial growth in the use of its value-added voice and data services, resulting in increased traffic revenue on its network.

Vodacom launched the first commercial 3G network in South Africa in December 2004 and was the first to launch the HSUPA service during May 2008. HSUPA is an enhancement of Vodacom's current HSDPA 3.6 service, which will offer users maximum upload speeds of up to 1.4 Mbps and download speeds of up to 3.6 Mbps. In the 2005 financial year, Vodacom entered into an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services. In connection with the launch of its 3G network, Vodafone launched Vodafone Mobile Connect Cards, 3G/GPRS/HSDPA datacards providing fast, secure access to corporate networks from laptop or desktop computers, Vodafone live! with global and local content, picture and video messaging and downloads, Mobile TV and BlackBerry®. Vodacom's alliance with Vodafone also provides Vodacom access to Vodafone's global research and development and access to Vodafone's marketing and buying powers. Significant data price reductions during the 2007 financial year were introduced to further establish Vodacom as a serious contender in the data connectivity space and offered a viable alternative to fixed-line while increasing mobile data adoption.

Vodacom launched Voicemail2SMS, a value added service offering contract customers the ability to have their voicemail messages converted to SMS, in the 2008 financial year. Vodacom also launched a reverse charge service in the 2008 financial year, enabling contract customers to accept and pay for calls made by other Vodacom customers. Further enhancements are expected to be added to the service to enable all of Vodacom's prepaid and contract customers to accept calls as well in the 2009 financial year. On May 8, 2007 Vodacom formalized entry into the broadcasting and multimedia market by announcing that it had secured an exclusive pay TV agency agreement with MultiChoice. MultiChoice provides direct-to-home satellite services. With DStv Select, the direct-to-home digital satellite services operated under the brand name DStv, Vodacom and non-Vodacom customers have a choice between two DStv Select bouquets, each offering a variety of the latest entertainment, news, sports, movies, documentaries and music channels. Vodacom also launched the Adult Content Management System, a mobile system that enables parents to prevent their children receiving mature content, in the 2007 financial year. Vodacom has adopted a conservative approach which prohibits the delivery of undesirable content and limits all users to a level of content similar to that which is freely available at newsagents. Children are further protected from not only visually unsuitable material, but also from chat rooms and unsuitable websites. On December 1, 2005 Vodafone Release 7 was launched with welcome tones and Mobile TV as major new services. By March 31, 2008 there were 26 TV channels available on Vodafone live! In the 2004 financial year, Vodacom launched SMS-only roaming and promotional offerings such as free MMSs and free SMSs. Vodacom launched MyLife, its MMS and GPRS network service, on October 17, 2002, Office Anywhere in August 2003, location based services Look4me in February 2004 and Look4it in March 2004. Vodacom was also the first to launch BlackBerry® devices into the South African market, shifting the focus to data and e-mail on demand.

A focus area in the 2007 financial year has been to enhance self service, both through the Vodacom4me portal and the *111# service. These offer customers the ability to automatically set up their own phone for data and multimedia messaging services, to check billing and bundle information real-time and apply for, and change value-added services if required. The service has been promoted more aggressively in the 2008 financial year and customers are now also able to purchase data and SMS bundles via this self service facility.

Vodacom continued to deliver on its data strategy which utilizes wireless application service providers, or WASPs, to provide ease of connectivity and standardized interfaces. Currently, the WASP model is driven largely by consumer applications, with the majority of interest being in premium-rated outgoing SMS and bulk incoming SMS services. During the 2008 financial year a consolidation of WASPs had been encouraged by Vodacom, which resulted in the reduction of active WASPs from 165 as of March 31, 2007 to 149 as of March 31, 2008. Vodacom also provides premium rated MMS and interactive voice response, as well as the Vodacom online billing service, which has been increasing. This enables the content provider, or WASP, to issue Vodacom billing tickets, enabling Vodacom to collect subscription services on their behalf. WASP services are provided by Vodacom, as well as Cointel. Revenues from WASP services increased by 33% in the 2008 financial year to R494 million as the number of services has increased.

Data revenue contributed 10.4% of Vodacom's total revenue in the year ended March 31, 2008, up from 8.1% in the year ended March 31, 2007 and 6.0% in the year ended March 31, 2006. Vodacom's data revenue increased primarily due to higher penetration levels influenced by more affordable product offerings. In South Africa, Vodacom transmitted 4.7 billion SMSs over its network in the 2008 financial year, compared to 4.5 billion SMSs in the 2007 financial year. There was an increase in users of GPRS in the 2008 financial year, with the number of GPRS users increasing to approximately 4.7 million as of March 31, 2008 from approximately 2.8 million as of March 31, 2007 and approximately 1.4 million as of March 31, 2006. The number of active data users includes approximately 1.4 million MMS users, approximately 370,000 data card and USB modem users,

approximately 1.3 million 3G/HSDPA handsets, approximately 1.4 million Vodafone live! users and approximately 31,000 Unique Mobile TV users as of March 31, 2008, compared to approximately 1.2 million MMS users, approximately 149,000 data card and USB modem users, approximately 584,000 3G/HSDPA handsets, approximately 899,000 Vodafone live! users and approximately 33,000 Unique Mobile TV users as of March 31, 2007. As of March 31, 2008 Vodacom had 32,273 BlackBerry® users registered on its network, compared to approximately 23,328 as of March 31, 2007. Vodacom expects that the broad introduction of “always on” faster response and generally higher speed packet-switched data services, such as GPRS and universal mobile telecommunications system, or UMTS, will provide the platform for future value-added services.

Handset sales

Vodacom Service Provider Company (Pty) Limited, or Vodacom Service Provider, sells handsets to its distribution channel and other service providers. Service providers in South Africa generally subsidize handsets when a contract customer enters into a new contract or renews an existing contract, depending on the airtime and tariff plan and type of handset purchased. Handset sales amounted to approximately 5.1 million units, 4.6 million units and 3.8 million units in the 2008, 2007 and 2006 financial years, respectively, representing increases of approximately 10.9%, 21.1% and 58.3% in the 2008, 2007 and 2006 financial years, respectively. Vodacom's state of the art warehouse in Midrand handled an average of 2,600 orders per day, up by 13.7% from the prior year figure of 2,287 orders per day. Approximately 98.1% of all deliveries to distribution channels are finalized within 48 hours of receipt of the order. Camera technology in phones has improved with 2 mega pixel cameras being the standard and 7 mega pixel cameras now available on high end phones. HSDPA handsets became available to the market in the 2007 financial year. In addition, Bluetooth technology is available on most mid- and high-end phones. The Vodafone live! handset portfolio has continued to increase during the course of the 2008 financial year and accounted for approximately 18% of Vodacom's total sales in the 2008 financial year compared to 32% for the 2007 financial year. 3G handset prices also declined significantly in the 2007 and 2008 financial years making 3G handsets now more affordable. HSDPA card sales increased in the 2008 financial year, accounting for approximately 5% of total sales for the year. Vodacom provides laptop or desktop computers to customers who enter into certain contract agreements. These services are expected to continue to be successful in the coming year with the introduction of embedded HSDPA 3.6 modules in laptop computers.

Mobile users may use any handset on the Vodacom or any other network if the handset contains a SIM-card for Vodacom or the other network. No modifications, other than the replacement of the SIM-card, are required to utilize handsets on either the Vodacom or other mobile communications network operators' networks, unless the handset is network locked.

Interconnection services

Vodacom has interconnection agreements with national mobile operators, MTN and Cell C, as well as with Telkom, Neotel and carrier-of-carriers licensee, Sentech. In addition, Vodacom has an interconnection agreement in place with eight VANS operators.

Roaming services

Vodacom has national roaming agreements in place with national mobile network operator Cell C, which is terminable fifteen years after commencement on or after November 14, 2016, as well as with USALs Amatole, iTel, BTel, Karabotel and Kingdom Communications, which are terminable three years after commencement. These agreements unilaterally enable the customers of Cell C and the USALs to make use of Vodacom's network to originate and terminate calls as well as to access other

telecommunication services. In addition to allowing the USALs customers to roam on Vodacom's network, Vodacom provides the USALs with certain ancillary services such as SIM card provisioning, recharge facilities and customer care.

To enable Vodacom to provide its customers with telecommunication services while outside of South Africa and to provide services to customers of foreign networks operators while outside South Africa, Vodacom has international roaming agreements with 397 foreign mobile network operators in 182 countries as of March 31, 2008. Of these, 149 allow for GPRS roaming, 54 allow for 3G roaming, three allow for HSDPA roaming, and 27 allow for prepaid roaming. Objectives for the 2009 financial year will continue to focus on increasing the footprint for Vodafone Passport, prepaid and GPRS networks as well as maintaining reductions in the inter-operator tariffs charged to Vodacom by other networks.

Customers

Vodacom has experienced substantial growth in its mobile customer base since its inception in 1994. As of March 31, 2008, there were an estimated 45 million mobile customers in South Africa, which represents an estimated penetration rate of 94% of the population. As of March 31, 2008, Vodacom estimated that its customers represented approximately 55% of South African mobile customers, making Vodacom the leading mobile communications network provider in South Africa based on total estimated customers. For a breakdown in Vodacom's customers for the past five years, see Item 3. "Key Information – Selected Historical Consolidated Financial and Other Data of Vodacom Group."

The South African customer base has continued to grow in the 2008 and 2007 financial years with the majority of the growth resulting from the prepaid market, partially offset by an increase in prepaid churn due to the implementation of the supplementary disconnection rule. The strong growth in contract customers was a direct result of the large number of gross connections achieved with continued levels of handset support to service providers in respect of the contract base, coupled with decreased churn in the contract base. Loyalty and retention programs continue to play an integral role in achieving the strategy of retaining market share and attracting new customers. Prepaid gross connections increased 11.1% to approximately 11.2 million in the 2008 financial year compared to approximately 10.1 million in the 2007 financial year. Contract gross connections increased 17.4% to approximately 782,000 in the 2008 financial year compared to approximately 666,000 in the 2007 financial year. Growth in contract customers was largely due to the increase in connections in Family Top Up, 3G data card packages, Messenger data packages and Weekend Everyday consumer packages. As of March 31, 2008, 26.4% of Vodacom's contract customers were Top Up customers, compared to 30.0% as of March 31, 2007 and 27.6% as of March 31, 2006.

Vodacom expects that the number of contract customers in South Africa will eventually level off and that the number of prepaid customers in South Africa will continue to grow in the medium term driven by the continued demand for basic voice telephone services. Vodacom's growth in prepaid customers could be negatively impacted by restrictions contained in RICA, which may require a burdensome registration process for customers and may require Vodacom to disconnect prepaid customers if it is not able to obtain such information. See Item 3. "Key Information – Risk Factors". Vodacom believes that mobile communications services provide a cost effective means of telephone services for customers in underserved and rural, outlying areas. Vodacom's efforts will therefore continue to focus on growing customer numbers while carefully managing its existing customer base, marginal revenue per customer and customer related acquisition and retention costs. Vodacom, MTN and Cell C each provide connection commissions to service providers and dealers, or agents. These are often utilized by agents to subsidize handsets as an incentive for customers to switch operators to obtain a new handset and to reduce the cost of access. As a result, Vodacom is seeking to lower its

contract churn rate and retain high value customers through focused handset upgrade policies, loyalty programs and other retention measures, while continuously monitoring customer acquisition and retention costs. Vodacom also actively manages churn through customer relationship management systems, developing its own distribution and logistics capabilities and other retention initiatives. Prepaid customer churn is negatively affected by the high rate of unemployment in South Africa and the low cost of access.

Traffic

The following table sets forth information related to the traffic volume of Vodacom's customers in South Africa for the periods indicated. Traffic comprises outgoing calls made in South Africa and abroad and incoming calls received by Vodacom's customers in South Africa, excluding national roaming and incoming international roaming calls.

	<u>Year ended March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
	(millions of minutes, except percentages)				
Total traffic	17,066	20,383	22,769	19.4	11.7
Outgoing	11,354	13,638	15,323	20.1	12.4
Incoming (interconnection)	5,712	6,745	7,446	18.1	10.4

Growth in traffic in the 2008 financial year was mainly due to the 7.9% growth in the total customer base in South Africa from 23.0 million customers as of March 31, 2007 to 24.8 million customers as of March 31, 2008. Customer calling patterns continued the trend of the past few years where the total mobile-to-mobile traffic increased 13.5% while total mobile-to-fixed and fixed-to-mobile traffic only increased 3.5% in the 2008 financial year. Growth in traffic in the 2007 financial year was mainly due to the 20.1% growth in the total customer base in South Africa from 19.2 million customers as of March 31, 2006 to 23.0 million customers as of March 31, 2007, with total mobile to mobile traffic increasing by 23.9% and total mobile-to-fixed and fixed-to-mobile traffic increasing by 2.9% in the 2007 financial year.

Tariffs

Vodacom's tariffs are subject to regulatory scrutiny, and, in certain circumstances, approval of ICASA. The contract tariff packages are designed to appeal to consumers and business customers. Vodacom sets its contract subscription package tariffs utilizing a balanced mix of access and usage. For those tariff packages where voice usage is high, the per minute rate is lowered and the monthly subscription tariff is raised. For those packages where the voice usage is low, the per minute tariff rate is increased and the monthly subscription tariff is lowered. For those users where the monthly subscription tariff is a barrier to entry, Vodacom offers prepaid packages with no monthly subscription tariff, but sets the per minute voice tariff rate higher. Vodacom and MTN are parties to an amended interconnection agreement with each other and new interconnection agreements with Cell C. Effective January 2005, the mobile-to-mobile interconnection rates for both commercial and community service telephone originated calls were increased from R1.23 peak and R0.73 off peak to R1.25 peak and R0.77 off peak for commercial calls and from R0.04 peak and R0.04 off peak to R0.06 peak and R0.06 off peak for community service calls, in each case exclusive of VAT.

The following table sets forth selected tariff information as of March 31, 2008 for a family top up package, a consumer contract package, a business contract package and a prepaid package. Peak hours are weekdays between 7:00 a.m. and 8:00 p.m., whereas Happy Hours, which was introduced in the 2006 financial year, are weekdays between 5:00 p.m. and 8:00 p.m. Off peak hours are all other times and all day during public holidays and weekends. Tariffs for international calls vary according to the destination country of the call. Vodacom South Africa's most recent annual tariff amendments were

lodged on September 19, 2006 and approved by ICASA on September 29, 2006. The amendments resulted in an average tariff decrease on packages affected of 1.8%, which was effective November 1, 2006.

	Family Top Up⁽¹⁾	Leisure Contract⁽²⁾	Business Contract⁽³⁾	Prepaid⁽⁴⁾
	(ZAR, including value-added tax)			
Connection fee	97.00	97.00	97.00	–
Monthly charge/subscription	135.00	135.00	800.00	–
National calls	(ZAR/minute, including value-added tax)			
Mobile-to-fixed peak calls	2.20	2.75	1.15	2.85
Mobile-to-fixed off peak calls	0.97	0.95	0.90	1.12
Mobile-to-mobile peak calls – own network	1.80	1.80	1.43	2.85
Mobile-to-mobile “Happy Hours” – own network	1.49	1.49	n/a	1.49
Mobile-to-mobile off peak calls – own network	0.97	0.90	0.90	1.12
Mobile-to-mobile peak calls – other networks	2.75	2.75	1.85	2.99
Mobile-to-mobile off peak calls – other networks	1.05	0.95	1.15	1.30
International calls				
Peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone	1.76 + Retail Telkom peak rate	1.76 + Retail Telkom peak rate	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone
Off peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone	0.95 + Telkom off peak rate	0.95 + Telkom off peak rate	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone
	(ZAR, including value-added tax)			
SMS per message				
Peak	0.80	0.80	0.80	0.80
Off peak	0.35	0.35	0.35	0.35

Notes:

- (1) Tariff for “Family Top Up”, Vodacom’s hybrid contract package. Vodacom’s “Family Top Up” contract includes R135 of credit airtime value per month. Calls are charged for the first 60 second increment and 30 second increments thereafter. As of March 31, 2008, “Family Top Up” customers accounted for 12.1% of Vodacom’s total contract customers.
- (2) Tariff for “Weekend Everyday”, Vodacom’s consumer contract package. Vodacom’s “Weekend Everyday” contract includes 120 free off peak minutes per month. Calls are charged for the first 60 second increment and 30 second increments thereafter. As of March 31, 2008, “Weekend Everyday” customers accounted for 17.7% of Vodacom’s total contract customers.
- (3) Tariff for “Talk 500S,” a business contract package. Vodacom’s “Talk 500S” contract includes 500 free minutes and 100 free SMSs per month. Calls are charged for the first 60 second increment and 30 second increments thereafter. As of March 31, 2008, “Talk 500S” customers accounted for 7.9% of Vodacom’s total contract customers.
- (4) Tariff for “4U”. Calls are charged per second. As of March 31, 2008, “4U” customers accounted for 92.7% of Vodacom’s total prepaid customers.

Sales and marketing

Vodacom's sales and marketing strategy is split into two focus areas, marketing and brand building and sales and distribution. Vodacom's promotional strategy seeks to build a brand that is widely recognized by customers. Vodacom's advertising and promotion campaign is focused on television advertising and sponsorship of sporting and entertainment events.

The sale and distribution of Vodacom's products and services and the acquisition and retention of customers are performed by Vodacom's wholly owned subsidiary, Vodacom Service Provider Company, a company incorporated in South Africa, and the other independent and exclusive service providers. In recent years, Vodacom has purchased a number of the previously independent service providers and consolidated its sales and distribution operations into Vodacom Service Provider Company. See Item 4. "Information on the company – Recent Developments – Vodacom's acquisitions and dispositions – Service provider acquisitions."

In addition, Vodacom Service Provider Company seeks to enter into exclusive relationships with leading national retailers, wholesalers, dealers and franchisees in order to acquire and retain contract and prepaid customers. Vodacom utilized one exclusive service provider and two independent non-exclusive service providers as of March 31, 2008.

Vodacom currently targets four market segments, namely:

- Corporate market – services to corporations and enterprises;
- Developed market – services to customers in the higher income groups;
- Developing market – services to customers in underserved areas and lower income groups, who increasingly participate in the economy; and
- Youth market – services specifically designed for the needs of the youth.

Since most customers in the developed market already have cell phones, Vodacom's objective in the short to medium term is to retain market share and attract new customers through attractive products. Loyalty and retention programs played an integral role in achieving this objective. Vodacom also sought to increase its contract customer base by migrating appropriate high-end prepaid customers to Vodacom's hybrid contract product, Top Up, in the 2008 and 2007 financial years.

As of March 31, 2008, Vodacom's distribution network consisted of:

- Vodaworld – A unique one stop mobile telecommunications mall, showcasing the latest technology in cellular hardware;
- Dealers and franchises – 980 Vodacom and third party owned mobile dealer and franchise outlets, which include Vodashops, Vodacares, Vodacom 4U, Chatz and Cellshack shops, Smartcall, Smartcom and Glozell;
- National chains – 14,300 retail outlets;
- Vodacom Direct – Vodacom's call center based and online selling division;
- Vodacom Business – An extensive direct sales division within Vodacom which concentrates on the sale of contracts, data products and value added services and more recently, information, communications and technology converged services to businesses;
- Wholesale – A significant channel comprising street vendors serving underserved areas; and
- Service provider distribution – Consisting of direct sales, corporate dealers and franchise stores such as Nashua and Autopage.

Dealer incentives

Vodacom pays amounts to its service providers and dealers for the ongoing administration of its customers on a monthly basis.

Vodacom also pays the following incentive commissions to its service providers and dealers: Contract connection incentive commissions. These commissions are paid to service providers or dealers for the acquisition and activation of each new customer for all contract packages.

Contract retention incentive commissions. These commissions are paid to service providers or dealers for the retention of all contract packages, excluding Vodacom 4U. The purpose of these incentives is to retain customers.

Prepaid incentive commissions. These commissions are paid to service providers or dealers for the acquisition and activation of each new customer for all prepaid packages.

Distribution incentive commissions. These commissions are paid to service providers or dealers to maintain and increase their loyalty to, and exclusivity with, Vodacom. These incentives include exclusivity payments and advances to service providers in respect of purchases of assets for stores and providing distribution outlets with distribution subsidies to maintain the loyalty of distribution outlets through the stimulation of sales.

Handset incentive commissions. These incentives are offered by Vodacom to dealers who purchase phones from Vodacom to provide to customers, which are recorded as a net against revenue.

Customer care

Vodacom services customer needs through a variety of channels such as call centers, walk-in centers established in Bloemfontein, Cape Town, Durban, Johannesburg, Midrand and Port Elizabeth and interactive voice response, through e-mail and Vodacom's web sites. Vodacom's key focus for the 2008 financial year has been to focus on call handling with the primary focus being the distribution of customer calls to appropriately skilled agents, accompanied by a redesign of the customer care interactive voice response. Vodacom's key focus areas for the 2007 financial year was to grow capacity in its call centers and concentrate on customer retention following the implementation of mobile number portability. Approximately 70% of customer queries in the 2008 financial year were handled by the interactive voice response system and more than 80% of customer queries were resolved with the first call. Vodacom has become increasingly proactive in developing relationships with its customers, particularly in the high revenue segment of the market. Seven centers are currently active, and one more is planned in the Gauteng Province. As data services became more popular, all of these centers were upgraded to assist customers with queries of a technical nature and in the case of the Vodaworld center, a dedicated data center was created where customers receive personalized attention to resolve their highly technical data related queries.

Customer care was previously split into two focus areas, namely systems support and operations and retentions. During the 2008 financial year the systems support area was transferred to the information technology division of Vodacom, which has enabled the customer care area to better focus on customer retention. An email contact center has been established and has experienced significant growth. The outsourcing of Vodacom's directory inquiries and basic prepaid calls continued successfully in the 2008 financial year.

A new strategic call handling approach was developed to consolidate skills and move customer care from a multi-skilled environment, to a specialized single skilled environment. This project was closely aligned with the redesign of the existing customer care interactive voice response unit. Customers from across the country from four language groups were interviewed to design an effective

customer interface. Changes included new interactive voice response menu structures, the re-scripting of interactive voice response prompts, and more effective call routing designed to provide an improved overall customer experience. Call volume to agents has subsequently dropped due to fewer repeat calls.

A national project to train an additional 400 flexi agents was implemented during October 2007. Furthermore, in order to address the annual increase in call volumes during December and January, a structured long term plan for continuous recruitment, training, coaching and up-skilling of flexi agents was implemented.

Specialization of call centers has been very successful. A data call center was established to focus on the support of GPRS and 3G HSDPA products. For the first time staff have been trained on both telecommunications and information technology skills and customer feedback has been positive. A highly specialized dedicated support desk was also established and is providing successful first tier and second tier support, combined with valuable statistical analysis of customers' reasons for porting their mobile numbers.

Vodacom has a customer relationship management package that enables it to create a historical profile of customers so that customer information can be shared among the group and used in Vodacom's customer retention initiatives. Although customer focus has always been important to Vodacom, during recent years customer relationship management has become a key strategic focus area and an important philosophy in Vodacom. Vodacom continued to expand call centers, increase focus on efficiency and increase staff training as part of improving this continuously challenging area in the 2008 financial year. Vodacom strives to improve relationships with customers by understanding their needs, their likes, dislikes, how they use its products and how they would like Vodacom to interact with them. Vodacom reassures its performance through independent customer satisfaction surveys designed by Vodafone and conducted on a quarterly basis. Vodacom launched its Vodacom Customer Reward Program to recognize and reward for influential and high spending contract individuals, which it believes, has contributed to a very low churn in this sector. During the 2007 financial year a Vodacom credit card was introduced whereby Vodacom contract customers are given discounts on travel, leisure, security, education and cellular products. The prepaid loyalty program remained popular as Vodacom prepaid customers were able to exchange their talking points earned when recharging for rewards such as free SMS bundles, call discounts and free cell phones. This program has proved to be extremely popular among our high end prepaid customers while the YeboMillionaires program continues to be a favourite with Vodacom's emerging market customers.

In addition, Vodacom has undertaken a number of other initiatives, including the development of distribution and logistics capabilities to better service customers, called Vodacare. As of March 31, 2008 the Vodacare infrastructure consisted of 39 branches and franchises in all the major centers providing walk-in customer support to Vodacom customers, and an advanced repair center hub for high-level repairs situated in Midrand. Vodacom believes that, with an average of approximately 80,000 repairs per month, this dedicated customer service support infrastructure differentiates Vodacom's service from that of its competitors. Vodacom has a 48 hour swap program to further increase service levels. The primary focus is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible and is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, and managed repairs through third parties.

Vodacom plans to continue to invest in sophisticated information systems to facilitate the interface between operational support systems, administrative systems, billing systems, distribution systems and customer service systems. Vodacom believes that the new information systems will allow for the development of enhanced service management processes.

Vodacom's contract customers receive itemized bills and are encouraged to pay by direct debit transfer. Vodacom has a flexible billing system for corporate customers allowing it to offer multiple tariff rates, more customized billing information and billing for all GPRS- and 3G-related services. Vodacom monitors its exposure to credit loss and customer fraud through a credit scoring system that evaluates potential contract customers. The evaluation process has led to decreases in contract customer churn rates and increases in the overall credit quality of its mobile contract customers. For its prepaid customers, Vodacom offers the option to recharge over the telephone and certain websites using credit cards in order to make the recharge process quicker and easier, as well as from internet sites from specific banks.

Infrastructure and technology

Vodacom operates one of the largest mobile communications networks based on total estimated customers on the African continent using and deploying digital GSM technology within the GSM 900/1800/2100 MHz frequency bands.

In South Africa, the network's core infrastructure is characterized by mobile switching centers (including visitor location registers and gateways), while the radio network consists of radio network controllers, Node Bs (UMTS base transceiver stations), base station controllers and base transceiver stations. At this point Vodacom has deployed GPRS in all areas of its GSM network, whereas EDGE is deployed to a lesser degree and UMTS is in turn deployed to an even lesser degree, largely in major metropolitan areas, key towns and resorts only.

	As of March 31,		
	2006	2007	2008
Macro base transceiver stations	4,873	5,231	5,603
Micro base transceiver stations	1,528	1,634	1,697
Total	6,401	6,865	7,300

The Vodacom network's UMTS 3G infrastructure as of March 31, 2008 consisted of 29 radio network controllers, 2,559 UMTS base transceiver stations (Node B), 13,731 UMTS transceivers and HSDPA functionality across the 3G network.

During the 2008 year, Vodacom commenced with the deployment of a WiMAX network on behalf of Wireless Business Solutions. Phase 1 of this network was deployed in Johannesburg, Pretoria, Cape Town and Durban. As of March 31, 2008, 60 WiMAX base stations were ready for network switch-on. Vodacom is planning user trials in the second quarter of the 2009 financial year.

Prepaid services are supported by the same GSM technology as contract services. In addition, prepaid services utilize a network of intelligent network nodes and associated front-ends and mediation systems for a variety of interactive voice response and electronic recharging options, including commercial bank ATM and point of sale terminal recharging.

As of March 31, 2008, Vodacom's transmission network was comprised of 24,238 E1 links and 484 broadband links leased from Telkom, which are managed by a comprehensive next generation synchronous digital hierarchy digital cross-connect and multi-services platform infrastructure. In addition, Vodacom operates an extensive data network for its internal and commercial data requirements, based on multi-protocol label switching internet protocol. It is comprised of more than 450 nodes and is supported by the Ethernet over synchronous digital hierarchy.

Vodacom embarked on the self-provisioning of transmission capability towards the end of the 2007 calendar year. 145 microwave links have been installed and are operational. Vodacom is currently deploying core fiber rings in Gauteng, the northern borders of Gauteng, KwaZulu-Natal, the Western Cape, the Eastern Cape and the Central region for the self-provisioning of a regional transmission core network.

This network enables Vodacom to provide value-added voice and data services supported by voice-mail platforms, short messaging service centers, a wireless application protocol platform, a mobile internet gateway platform supporting advanced SIM toolkit applications and an intelligent network platform.

Vodacom has designed its mobile communications network using scaleable technology in order to be able to increase capacity in an economic manner as demand dictates. The network is capable of providing a high level of service quality despite an extremely varied distribution of traffic, difficult terrain conditions and a complex regulatory environment. In the year ended March 31, 2008, Vodacom's 2G network had a call retention rate of 99.3% and a call success rate of 99.1% in South Africa.

As of March 31, 2008, approximately 36% of Vodacom's base stations were 3G enabled and Vodacom had installed dual band (GSM900/GSM1800 MHz) base transceiver stations in 2,532 locations, including 19,081 GSM1800 MHz transceivers. In addition, all base transceiver stations in metropolitan areas have been upgraded with dual band antennas and feeder cables to accommodate GSM1800 MHz radio equipment, while Vodacom continues to deploy GSM1800 radio equipment in all regions to provide additional customer capacity as necessitated by the increase in network traffic. In the design of its network, Vodacom has paid careful attention to the needs of customers and to the environment by making an extensive effort to implement sites in the most discrete manner possible. Furthermore, attention has been given to management of electromagnetic emissions to ensure compliance with recognized international environmental standards such as those developed by the International Commission on Non Ionizing Radiation Protection.

In the 2007 financial year Vodacom replaced its entire legacy Siemens Nixdorf platforms with Fujitsu Siemens servers in its Siemens intelligent network and changed the architecture, operating system, database and application environments supported on these systems.

In parallel to this, the prepaid data billing architecture was changed in order to provide the necessary data billing flexibility required for new services such as prepaid data bundles and differential charging for on and off-network data traffic.

Vodacom's billing system allows for the billing of GPRS/UTMS services, such as multi-media messaging services and other content-based services. Unlike traditional GSM services where calls are billed on a per second or per minute basis, customers utilizing GPRS services are billed according to the number of bytes of data sent or received.

During the 2008 financial year, Vodacom built Techno Park, a business engineering center. Techno Park houses most of the engineering and technology group's technical functions and staff in one building. It includes a state of the art laboratory where network configurations, hardware and software can be evaluated and developed, and provides a simulated live network for testing. Techno Park also houses a major technical node of the commercial Vodacom network, including key switching, intelligent networking, value added services and radio and transmission equipment. This includes two Vodacom earth stations that were completed during the 2007 financial year. These are now commercially operational and provide direct satellite communications with Vodacom's non South African operations.

Base capability was developed to support the suite of services launched by Vodacom Business. This included deployment of infrastructure, tier 1 internet network capability, entry-level data centers in Midrand to offer hosting, managed hosting and security services, and commencement of the final phase of a thousand square meter data center.

Vodacom believes its 3G license will continue to assist in stimulating further growth in products and services to satisfy customer demand. As a result, during the 2008 financial year Vodacom increased its capital spending in this area and expects to further increase its capital spending in this area in the 2009 financial year.

Competition

The current South African mobile telecommunications market consists of three mobile communications network operators, Vodacom, MTN, a wholly owned subsidiary of MTN Group Limited, a public company listed on the JSE and Cell C, which announced in June 2006 that it entered into a joint venture with Virgin Mobile. As of March 31, 2008, Vodacom was the market leader with an estimated 55% market share based on the total estimated customers in the South African mobile communications market, while MTN had an estimated 34% market share, Cell C had an estimated 11% market share and Virgin Mobile, through its joint venture with Cell C, held less than 1% of the estimated market share. Vodacom competes primarily on the basis of product quality, availability and network coverage. Vodacom believes that increased competition could have an adverse impact on its tariffs and churn rate.

Operations in other African countries

Vodacom intends to increase revenue from its other African operations by continuing to grow its existing operations in sub-Saharan Africa, through converged infrastructure and services and, to the extent available, by selectively acquiring additional telecommunications licenses or operators in other African markets in the future. Investments outside of South Africa are evaluated and monitored against key investment criteria, focusing primarily on countries with stable economic and political conditions or good prospects for growth, market leadership and profitability. Other key factors include Vodacom's ability to gain majority ownership, develop strong local partnership relationships and obtain non-recourse financing, where available. Where Vodacom is not able to obtain non-recourse financing, it seeks to fund operations from internally generated funds. Other African operators are branded under the "Vodacom" name. Vodacom is also considering entering new markets by seeking out alternative entry strategies such as through management and technical service agreements and acquiring non-traditional GSM operators such as internet service providers and other telecommunications service providers.

Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. The number of customers served by Vodacom's operations outside South Africa has grown significantly to approximately 9.2 million as of March 31, 2008 from approximately 7.1 million as of March 31, 2007 and approximately 4.4 million as of March 31, 2006. Revenue from Vodacom's operations outside of South Africa has grown to R5,394 million in the year ended March 31, 2008 from R4,139 million in the year ended March 31, 2007 and R2,974 million in the year ended March 31, 2006. Our share of Vodacom's operating profit from other African operations was R395 million in the year ended March 31, 2008, compared to R261 million in the year ended March 31, 2007 and R144 million in the year ended March 31, 2006.

Lesotho

Vodacom owns an 88.3% interest in Vodacom Lesotho (Pty) Limited, or Vodacom Lesotho, a company incorporated in the Kingdom of Lesotho, while Sekha-Metsi Enterprises (Pty) Limited, a company incorporated in the Kingdom of Lesotho, owns the remaining 11.7% of Vodacom Lesotho. Vodacom Lesotho's network was commercially launched in May 1996. Vodacom Lesotho's license has a term of 20 years with eight years remaining.

Although Vodacom Lesotho is a very small operation by South African standards, Vodacom launched its Lesotho operations due to the strategic geographical importance of Lesotho in terms of Vodacom's market share in neighboring South Africa. The network has 77 base transceiver stations, one mobile service switching center, three base station controllers, one short message service center, one intelligent network platform and one voicemail platform. WiMax base stations have been installed in various towns in the lowlands of Lesotho to facilitate fixed data connections for enterprise clients. Vodacom Lesotho's capital expenditures were R39 million, R25 million and

R26 million in the 2008, 2007 and 2006 financial years, respectively. The continued investment is an indication of the company's drive to expand and optimize the existing infrastructure in order to provide the widest coverage and superior network quality and service levels to its customer base.

Vodacom Lesotho offers a variety of prepaid and contract products to customers. Vodacom Lesotho's prepaid plans are consistently the most popular packages and accounted for 97.0% of Vodacom Lesotho's total customers as of March 31, 2008, compared to 97.5% as of March 31, 2007 and 97.1% as of March 31, 2006. The current prepaid offering is known as Mocha-o-chele. During the 2008 financial year, Vodacom Lesotho launched bulk printing, a new concept where Vodacom dealers can print paper vouchers from their own premises, a strategy aimed at phasing out physical vouchers to reduce production costs and minimize fraud. Vodacom Lesotho's SuperTalk contract products offer bundled minutes and a subsidized handset. The recently launched Super Talk Dual 500 and 1000 packages offer free bundled minutes and SMSs in Lesotho, South Africa and other selected countries worldwide. Additional contract packages include Corporate Executive, Master Plan, Budget Plan and Family Plan, which provide connectivity options without bundled services or subsidized handsets, except for the Corporate Executive plan, which offers free or subsidized handsets. Vodacom Lesotho also offers public phone services and a direct connect service allowing customers to access the Vodacom Lesotho network directly from their PABX.

Vodacom Lesotho also offers community services and has recently introduced an ultra low cost product, Motsamai Payphone, to promote entrepreneurship and increase public phone distribution. With Motsamai, a new tariff of M0.50 per unit was also introduced to promote accessibility and affordability to communication. Vodacom Lesotho's distribution is maintained via nine Vodashops, seven Super Dealers and four retail groups and Vodacom products can be purchased from various outlets in Lesotho. Customers are serviced through a walk-in customer care center or via a customer care call center which operates seven days a week. A state-of-the-art repair center with centers around the country was completed in the 2008 financial year. Churn decreased in the 2008 and 2007 financial years due to better service to customers, better network quality and wider coverage, improved call centre service and more affordable tariffs in real terms. Growth is fuelled by new coverage and increased distribution, complimented by the strong Vodacom brand.

The regulatory environment in Lesotho continues to prove challenging. The regulatory authorities in Lesotho issued a Communications Sector Liberalization Framework in January 2007. In terms of this framework, there is to be no limit on the number of participants in any service. All existing network operators will be allowed to operate international gateways and voice and data services are to be fully liberalized. Further proposals in the framework that will allow specified classes of internet service providers to have gateway licenses was not implemented during the 2008 financial year.

Econet-Ezicell remains the only direct mobile GSM competitor in Lesotho with Vodacom Lesotho still maintaining superior coverage and infrastructure. Vodacom Lesotho has increased its international roaming agreements to exceed that of Econet Ezicell. This will remain a priority in the 2009 financial year, with the core focus of retaining and expanding its estimated 80% market share as of March 31, 2008. As a result of the implementation of the framework for liberalization of the communications sector in February 2007, Vodacom Lesotho was authorized as a second network operator with an international gateway license and now competes with Telecom Lesotho in this area. Telecom Lesotho now also offers CDMA mobile service that competes with Vodacom Lesotho. Telecom Lesotho also provides a product, Lekomo Flexi, which is a mobile service using the Econet-Ezicell infrastructure.

The headcount for Vodacom Lesotho increased to 97 employees as of March 31, 2008, compared to 63 employees as of March 31, 2007 and 67 employees as of March 31, 2006. The increase was the result of the company's continued expansion. The number of customers per employee, including temporary employees, decreased from 4,429 customers per employee as of March 31, 2007 to 4,072 customers per employee as of March 31, 2008 due to an increase in the number of temporary employees.

Through World Bank secured financing, the regulatory authorities in Lesotho commissioned a study on interconnect and tariff rationalization in 2006. The objective of the study was to recommend the appropriate level of tariff regulation based on cost models for interconnection and retail rates. The consultants recommended a reduction in the mobile termination rates and an increase in the fixed termination rates. After review of these recommendations the network operators agreed on new interconnect rates that incorporated some recommendations of the study and have requested regulatory ratification for the new rates. Lesotho regulatory authorities however rejected the suggested rates and recommended their own rates. During the 2008 financial year, a partial implementation of the recommendations of the tariff rationalization study was implemented by the regulatory authority. The recommendation for relaxation of the regulatory regime for tariff regulation in respect of mobile operators to allow for price reductions to stimulate competition has not, however, been implemented. Tariff regulation is still strictly controlled by the tariff approval process of the regulatory authority.

Tanzania

Vodacom owns a 65% interest in Vodacom Tanzania Limited, or Vodacom Tanzania, a company incorporated in the United Republic of Tanzania, or Tanzania, while Mirambo Limited, a company incorporated in Tanzania, owns a 35% interest in Vodacom Tanzania. Prior to the 2008 financial year, these shares were owned by Caspian Limited (19%) and Planetel Communications Limited (16%). The roll-out of Vodacom Tanzania's network commenced in March 2000 and the commercial launch of the network occurred in August 2000.

Vodacom Tanzania became the largest mobile communications network operator in Tanzania within one year of launching. Vodacom Tanzania's capital expenditures were R713 million, R958 million and R322 million in the 2008, 2007 and 2006 financial years, respectively. Network coverage was approximately 40% of the land surface of Tanzania and approximately 63% of the population as of March 31, 2008 compared to approximately 20% of the land surface and approximately 54% of the population as of March 31, 2007.

In 2007, Vodacom Tanzania commercially launched its mobile internet offering over its 3G/HSDPA and 2.5G GPRS and EDGE networks, which together with its leased line offering utilizing WiMAX, have enhanced data revenues. The 3G/HSDPA data product covers Dar es Salaam, Dhoma and Arusha while the GPRS and EDGE networks have national coverage. Core data revenues continued to be primarily from SMS in the 2008 financial year, supported by Vodaflava, previously Vodatariffa, a premium rated SMS-based information, ring tone and logo download service.

Vodacom Tanzania's current package offerings are Vodago, its prepaid product, Vodachoice, its contract product, and Vodajazza, a hybrid service that provides cost control to the postpaid customer. During the course of the 2006 financial year, Vodacom Tanzania introduced Vodafasta, a recharge product which allows prepaid customers to electronically recharge airtime via registered vendors. This product enhances the availability of Vodago prepaid airtime and reduces the cost of physical distribution. Vodachoice continues to be the preferred contract package although Vodajazza, a contract hybrid product offered on the prepaid billing platform, has gained popularity in the corporate market, and was re-launched during the 2008 financial year into bundled packages. Vodacom Tanzania was the first operator in Tanzania to introduce per second billing on October 3, 2003. Per second billing has proved highly successful in Tanzania, and as of March 31, 2008, approximately 4.1 million of Vodacom Tanzania's customers were utilizing this service, compared to approximately 3.2 million as of March 31, 2007 and approximately 2.0 million as of March 31, 2006. Vodacom Tanzania currently offers international roaming on 327 networks in 145 countries.

The Vodacom Tanzania market profile was 99.4% prepaid as of March 31, 2008, compared to 99.3% prepaid as of March 31, 2007 and 99.5% prepaid as of March 31, 2006, and this is not expected to change significantly in the near future. Vodacom Tanzania had a churn rate of 45.5% in the 2008 financial year, 35.6% in the 2007 financial year and 28.5% in the 2006 financial year due to the high and increasing levels of competition in Tanzania.

There were three other mobile operators licensed in Tanzania, Zantel, Tigo and Celtel Tanzania. Two further operators, Tanzanian Telecommunications Company Limited, or TTCL, and Benson Informatics, both locally controlled companies, were granted mobile licenses and launched code division multiple access, or CDMA, mobile networks in the 2007 financial year. A further license was issued to Excellent Com Tanzania Limited and it is anticipated that they will commence operations towards the end of 2008.

Zantel, which had historically operated exclusively on the island of Zanzibar, moved onto the mainland during the 2006 financial year and enhanced its coverage by entering into a national roaming agreement with Vodacom Tanzania, effective from July 31, 2005. TTCL transferred its majority shareholding in Celtel Tanzania to the Tanzanian government and subsequently Celtel International B.V. was acquired by Mobile Telecommunications Company, or MTC, of Kuwait. Tigo is controlled by Millicom International Cellular S.A. There was no national prepaid tariff reduction during the 2008 financial year, however Celtel and Tigo have been active in providing unlimited free on net calls during peak times and free or substantially discounted late night calls. Zantel have provided free calls across all networks on a promotional basis. Vodacom Tanzania has responded by launching and then enhancing on a promotional basis, its late night offering "Chombeza Time". Since the deregulation of the international market, many more international operators entered the market, which allowed Vodacom Tanzania to reduce international call tariffs toward the end of the 2005 financial year.

During the 2007 financial year, Celtel launched a roaming product ("One Network" concept) over all its networks in the East African region, namely Tanzania, Uganda and Kenya. This product will allow all of Celtel's prepaid customers to roam on these networks at the tariff of the host network. During the 2008 financial year, Celtel extended the product across all their networks in Africa. In the 2007 financial year, Vodacom Tanzania, in co-operation with Safaricom in Kenya and MTN in Uganda, launched its Kama Kawaida product which allows roaming at home tariffs on these preferred roaming partner networks. During the 2008 financial year, Uganda Telecom, MTN Rwanda and Burundi's Ucom were added as roaming partners.

Vodacom Tanzania's estimated market share was approximately 52% as of March 31, 2008, compared to approximately 55% as of March 31, 2007 and approximately 58% as of March 31, 2006. Vodacom estimates that Celtel had a market share of approximately 29%, 28% and 27%, Tigo had a market share of approximately 13%, 12% and 11%, and Zantel had a market share of approximately 6%, 5% and 4% as of March 31, 2008, 2007 and 2006, respectively, based on the total estimated mobile market. TTCL and Benson Informatics combined had an estimated market share of less than 1% as of March 31, 2008.

Vodacom Tanzania had a total headcount of 766 employees as of March 31, 2008, compared to 527 employees as of March 31, 2007 and 438 as of March 31, 2006. Included in employees as of March 31, 2008, 2007 and 2006 are 15, 9 and 10 secondees, respectively, who are employed out of Vodacom International Limited.

Vodacom Tanzania continues to support the development of local Tanzanian skills. Vodacom Tanzania views employee relations as a key factor in ensuring a positive working environment. Staff issues are addressed via a consultative forum where staff are given a platform to address issues and agreed actions are monitored on a monthly basis.

New Telecommunications Regulations were introduced effective February 23, 2005. Vodacom Tanzania is currently regulated by the Tanzanian Communications Regulatory Authority, or TCRA, under the Tanzania Communications Act, 1993, as well as the Tanzania Regulatory Authority Act, 2003 and it is under these communications acts, that the new New Telecommunications Regulations were adopted and the TCRA introduced a converged licensing framework, otherwise referred to as the unified licensing framework, which is service and technology neutral. The new regulations ended the

fixed-line monopoly of TTCL, and lead to the liberalization of the telecommunications market within the country.

The negotiation of the terms and conditions of migration of Vodacom Tanzania's existing license to the new regulatory framework was finalized during the 2007 year. Vodacom Tanzania was granted new licenses on July 26, 2006 in connection with the migration to a new regulatory framework. These licenses were for national and international network facilities, network services application services and radio frequency spectrum resource usage. All licenses, with the exception of the application services license, run for a fixed term of 25 years. The application services license is for an initial term of five years for national and 10 years for international, which is automatically renewable with no additional obligations up to a period of 25 years. The microwave frequency usage license covers GSM and Digital Crossconnect Systems at 900 MHz and 1800 MHz and broadband frequencies for WiMAX and 3G/UMTS.

In February 2006, the Tanzanian Communications and Regulatory Authority, or TCRA, issued new interconnection rates for both mobile and fixed operators. The mobile termination rate was reduced from 8.9 US cents to 8.0 US cents from March 1, 2006, slightly above the previously published expected rate of 7.9 US cents. During the 2008 financial year, the TCRA issued a new interconnection determination effective January 1, 2008, which reduces the interconnection rate to 7.83 US cents, with further reductions due to reduce the rate to 7.16 US cents for the year commencing January 1, 2012. The rates were determined in US cents but settlement will be at a fixed determined rate of 97 Tanzanian schillings. Further the determination was extended to include all international terminating calls and going forward no differentiation was made between fixed and mobile operators.

Democratic Republic of the Congo

On December 11, 2001, Vodacom, together with Congolese Wireless Network s.p.r.l., a company incorporated in the Democratic Republic of the Congo, formed Vodacom Congo (RDC) s.p.r.l., or Vodacom Congo, a company incorporated in the Democratic Republic of the Congo. Vodacom owns a 51% interest in Vodacom Congo, while Congolese Wireless Network owns the remaining 49% interest in Vodacom Congo. Congolese Wireless Network s.p.r.l. had a limited existing network in the Democratic Republic of the Congo. Vodacom Congo's network was officially launched under the Vodacom brand in May 2002. Vodacom Congo has 11 years remaining on its license.

During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in Vodacom's consolidated financial statements. Effective April 1, 2004, Vodacom Congo was being fully consolidated as a subsidiary in Vodacom's consolidated financial statements after certain clauses granting the minority shareholders participating rights were removed from the shareholders agreement.

Vodacom Congo is currently performing well under challenging circumstances. The local currency appreciated 2.7% against the US Dollar in the 2008 financial year, after depreciating 17% against the US Dollar in the 2007 financial year, appreciating 13.0% against the US Dollar over the 2006 financial year, and depreciating 32.9% in the 2005 financial year. Improved affordability during the 2006 financial year, and the increase in spending power as a result of a positive economic outlook during 2007 and 2008, fuelled expansion of Vodacom Congo's customer base as the penetration rate of mobile customers in Congo increased from 6% as of March 31, 2006 to 9% as of March 31, 2007 and 12% as of March 31, 2008. ARPU was affected negatively as lower end users constituted a large part of the growth and the inactive customer base increased. The main contributing factors in achieving customer and profit growth during the 2008 financial year include coverage roll-out in strategic areas, capacity upgrades, the launching of new products and services and an effective and aggressive sales and distribution strategy.

Vodacom believes that its current coverage and market share levels provide Vodacom Congo a strong position to benefit from an economic upturn. Network coverage has been rolled out in all of the nine provinces of the Democratic Republic of the Congo, including 274 towns and consisted of 425 base stations and six mobile service switching centers as of March 31, 2008, compared to 238 towns, 368 base stations and four mobile service switching centers as of March 31, 2007 and 184 towns, 373 base stations and four mobile service switching centers as of March 31, 2006. Network capacity in the main centers has also been upgraded to maintain quality and service. Vodacom Congo covered approximately 11% of the geographical area of the Democratic Republic of the Congo and approximately 53% of the population as of March 31, 2008, compared to approximately 10% of the geographical area and approximately 53% of the population as of March 31, 2007 and approximately 8% of the geographical area and approximately 44% of the population as of March 31, 2006.

Vodacom Congo is financing its roll-out in the Democratic Republic of the Congo with a combination of external shareholder medium term funding and internally generated funds. Vodacom Congo's capital expenditure was R659 million, R506 million and R273 million in the 2008, 2007 and 2006 financial years, respectively.

Vodacom Congo currently offers contract, prepaid, PABX, ISP and public phone services. The contract product is aimed at the corporate market with the focus on value added services and customer service. Services to contract customers were enhanced in the 2006 financial year with the possibility to migrate to Top Up options and the introduction of the corporate PABX product. New business solutions such as ATM recharge and GPRS terminals have been launched for banks and other corporate customers, to perform real time transactions to enable their businesses in the DRC. The prepaid and public phone products are aimed at the broad Congolese market with the main competitive advantage being coverage, network quality and distribution. To further enhance its revenue streams, Vodacom Congo commercially launched a new prepaid per second billing package in December 2007. The package was introduced to counter similar products introduced by the competition in the market and to further enhance the Vodacom Congo portfolio of products and services. Vodacom Congo also introduced a MMS service and a missed call notification service.

To further enhance data revenue streams, Vodacom Congo commercially launched GPRS in February 2006. The application was introduced to support data transfer requirements during the electoral process and meet the data demands of local businesses and corporate clients. Vodacom Congo acquired the business of an internet service provider named InterConnect s.p.r.l in the Democratic Republic of the Congo for R21.2 million, effective November 1, 2006. The acquisition enables Vodacom Congo to offer additional products and services such as data and voice bundled packages to new and existing customers.

In May 2005, Vodacom Congo launched an electronic voucher solution called "Voda E" in order to strengthen its distribution capabilities and enable customers to recharge to the value of U.S.\$0.30, compared to the previous lowest denomination of U.S.\$1.00, and to transfer airtime among users via text messaging with the use of a standard handset. The new airtime distribution platform accounted for approximately 55% of all voucher sales on Vodacom Congo's network in the 2008 financial year, compared to approximately 40% in the 2007 financial year. In the 2007 financial year Vodacom Congo introduced a U.S.\$1 Vodago voucher as well as a secured electronic distribution system, or SEDS, which provides secure printed vouchers with extended distribution. SEDS was introduced to compliment the Electronic Voucher Distribution system with enhanced voucher security and operating system capacity.

During the 2008 financial year, a walk-in customer care center was opened with the objective of improving service to corporate and data customers. Vodacom Congo's customer care center serves customers in their choice of French, English, Lingala, Kingongo, Swahili and Tshiluba. Vodacom

Congo's interactive voice response handled in excess of 100,000 calls per day as of March 31, 2008. Vodacom Congo has been successful in establishing international roaming agreements with 380 operators in 165 countries.

Vodacom Congo's customer base consisted of 97.6%, 98.3% and 97.9% prepaid customers as of March 31, 2008, 2007 and 2006, respectively. Vodacom competes on the basis of effective distribution channels, network coverage, network quality, launch of new products and services and a strong and respected brand.

Vodacom Congo continued to be the market leader in the Democratic Republic of the Congo with an estimated market share of approximately 41% as of March 31, 2008, compared to approximately 47% as of March 31, 2007 and approximately 48% as of March 31, 2006 based on the total estimated mobile market. Celtel had an estimated market share of approximately 37% as of March 31, 2008, compared to approximately 39% as of March 31, 2007 and 44% as of March 31, 2006 based on the total estimated mobile market. The other two competitors in the Democratic Republic of the Congo, Tigo and Congo Chine Telecom, had estimated market shares of approximately 9% and 13%, respectively, as of March 31, 2008. Celtel is the main competitor in the Democratic Republic of the Congo with a similar approach of covering a large part of the population across the country, focusing its coverage in the main city centers as well as smaller rural towns. SAIT re-launched its network under the brand name Tigo in the 2007 financial year. This effort consisted of re-branding Tigo through aggressive TV, sponsorships and outdoor media activity. During the 2006 year Celtel and Tigo embarked on an aggressive pricing campaign and further coverage roll-out. Tigo continued this trend during the 2007 financial year, while Celtel focused on coverage roll out. Tigo and Congo Chine Telecom increased market share during the current year mainly as a result of significantly reduced tariffs and the launch of new packages offering low tariffs and increased bonuses combined with aggressive marketing and advertising.

Vodacom Congo had 919, 745 and 479 employees as of March 31, 2008, 2007 and 2006, respectively. The process of evaluation, identifying and training of local staff is a continuous focus of the company as part of the skills transfer process. The DRC employment market is currently very competitive with the arrival of multi-national companies. Vodacom Congo staff are an attractive target for recruitment as a result of their highly valued skills and training. Vodacom Congo embarked on an intensive program of training staff and projects such as the implementation of the Vodacom Congo employees' cooperative and wellness program. In previous years, a bursary scheme was implemented, aimed at targeting and developing students, and a retention scheme was implemented, aimed at retaining key employees. Vodacom Congo is focused on social responsibility programs, including education, health, welfare, environment, culture and art. Since 2002, the company has invested close to US\$3.5 million in various social projects.

The National Regulatory Agency, or NRA, were active during the 2007 financial year working with international consultants appointed by the World Bank on the reformation of the telecommunication legislative framework and regulations. Key focus areas included:

- spectrum (national planning, management and fees);
- interconnection guidelines and principles;
- cost modelling;
- numbering (national planning, management and fees); and
- universal service fund (constitution and funding mechanisms).

Draft guidelines and regulations on spectrum and numbering plans were submitted to network operators for consultation purposes during the 2007 year. The NRA also held public hearings in regards to the introduction of 3G technology.

In the 2008 financial year, a Bill was initiated by the Minister of Finance that will subject mobile operators to excise duties of 10% with a total burden of taxes on services revenue amounting to 28%. This Bill was passed on May 8, 2008 and is awaiting promulgation by the Head of State.

The telecommunications industry in the Democratic Republic of the Congo is subject to a recently promulgated ministerial decree requiring the registration of the entire customer base of all network operators. This decree requires prescribed particulars of all customers to be obtained and maintained by June 30, 2008. The sanction for non-compliance by any operator who has not identified its customers in accordance with the requirements of this decree within three months from March 28, 2008 could result in:

- a fine equivalent to between US\$5 thousand and US\$10 thousand per customer;
- suspension of the license for a period not exceeding three months in the event of repetition; and
- suspension of the license in the event of a likely disturbance of law and order/safety.

Vodacom is making every effort to obtain the required information but management believes it is unlikely that Vodacom will meet all the requirements as prescribed in this decree by June 30, 2008. Management is engaging with the relevant ministries on this matter and is presently unable to reliably assess the potential impact on Vodacom in the event of non-compliance with this decree.

SuperCell, affiliated to MTN-Rwanda cell, was previously granted a license on a regional basis by the Rassemblement Congolais pour la Démocratie, or RCD, political organization. The new political order established RCD as a recognized political power and SuperCell was granted a national license.

Although the issue remains unresolved, the National Regulatory Agency's position is currently that no local interconnection is allowed with SuperCell. In view of the controversy associated with SuperCell's operations, the Minister of Post, Telephone and Telegraph subjected the validity of the SuperCell license to a minimum required investment in the Democratic Republic of the Congo by SuperCell of core network elements.

In addition to its GSM license rights, Vodacom Congo was granted additional exploitation rights for PABX (including an assigned spectrum for corporate direct connection) and internet/WiMAX.

Mozambique

Vodacom Mozambique was established on October 23, 2003 and launched commercial operations on December 15, 2003. Vodacom owned 98% of VM S.A.R.L., trading as Vodacom Mozambique and the remaining 2% was held by a local consortium named EMOTEL. Effective April 1, 2007, Vodacom International Limited (Mauritius) sold an 8% stake in Vodacom Mozambique to local investors, with 5% being purchased by Intelec Holdings Limitada and EMOTEL acquiring an additional 3%. On May 12, 2008 Vodacom International Limited entered into an agreement to sell 5% of its 90% owned equity investment in Vodacom Mozambique, which will leave Vodacom International Limited with an 85% equity investment in Vodacom Mozambique. Certain suspensive conditions are to be met before the transaction will be effective. Vodacom Mozambique was awarded its license in August of 2002, but due to the fixed-line operator and the cellular operator being one company with no interconnect rates applicable, the license was not accepted until August 2003 when the issues were satisfactorily resolved. The license is a 2G GSM license and will expire in December 2018. Vodacom Mozambique applied for a third generation license in the 2008 financial year. Vodacom Mozambique applied for a third generation, 3G, license during the 2008 financial year.

Vodacom Mozambique's infrastructure consisted of two mobile service switching centers, six base station controllers and 220 base transceiver stations as of March 31, 2008. Vodacom Mozambique increased its network to a capacity of approximately 4.0 million customers as of March 31, 2008.

Vodacom Mozambique's capital expenditure was R111 million, R85 million and R121 million in the 2008, 2007 and 2006 financial years, respectively. GPRS/Enhanced Data for GSM Evolution, or EDGE, has been available since the end of June 2006 for contract and prepaid customers. EDGE is a data service that provides a faster version of GSM wireless service. In tandem with the launch of GPRS and MMS, Vodacom Mozambique also launched VodaMail, a free e-mail service available to all contract customers.

Since prepaid continues to be the bulk of the business in Mozambique, a range of new innovative services were launched during the 2007 financial year to enhance the overall value proposition of Bazza Bazza, a prepaid product. These services include Bazza Bonus, a high-spend airtime reward scheme that rewards customers daily with free airtime based on the previous day's spend. As a further measure to reward customers, 60+ was launched in August 2006, which rewards customers with free SMSs for long duration calls. In February 2007 Bazza uau! was launched which introduced a third prepaid tariff plan with the benefit of rewarding customers for receiving calls. Launched in July 2007, Vodakool is an innovative illustration of how mobile communications can empower Mozambicans. Vodakool, the news and information portal exclusive to Vodacom, links customers with breaking local and international news, sports results, weather and financial information in partnership with local content providers. In a country where traditional media reach is generally restricted to the confines of large cities, this service helps to bridge the information divide in a society where it is all too prevalent. Vodakool also serves as an important medium in reaching existing customers and is used to keep them informed about the latest new products, Vodacom events, promotions and special offers.

Other product and service launches in the 2008 financial year include a new value added offering in its prepaid starter pack, voucher based tariff promotions and retention programs for both the prepaid and contract customer base. Other services launched in the 2007 financial year include SMS bundles for contract customers, electronic invoicing, an unstructured supplementary service data, or USSD, based self-care menu, premium rated SMS and interactive voice response, or IVR, based competitions, and content based services through third party wireless application service providers, or WASPs.

Vodacom Mozambique offers customers contract and prepaid plans and continued to roll out public phones in the 2008 year. Prepaid packages accounted for 97.9%, 99.0% and 98.5% of gross connections in the 2008, 2007 and 2006 financial years, respectively. Contract products are mainly aimed at the corporate and business market, while prepaid products are aimed at the large informal market. Vodacom Mozambique has an interactive voice response in place and customer care can handle customer queries in two languages, namely Portuguese and English.

During the 2006 financial year, Vodacom Mozambique moved towards an exclusive distribution arrangement, expanded its distribution network and introduced regional distribution centers. Vodacom Mozambique also increased its growth due to the introduction in the 2006 financial year of growth incentive and stretch target parameters included in the commercial incentive models offered to distribution partners, resulting in an increase in the subscriber base during the 2007 and 2008 financial years.

During the 2008 financial year Vodacom Mozambique managed to increase its customer base by 29.8% to approximately 1,282,000 customers as of March 31, 2008 from approximately 988,000 customers as of March 31, 2007. The increase in total customers is primarily a result of approximately 951,000 gross connections in the 2008 financial year, compared to approximately 797,000 in the 2007 financial year, offset in part by a churn rate of 58.7% in the 2008 financial year, compared to 41.7% in the 2007 financial year.

Vodacom Mozambique's only competition is Moçambique Cellular, previously Telecomunicações Móveis de Moçambique, Lda, or mCel, a company owned by Telecomunicações de Moçambique,

or TDM, who is also the national fixed-line operator. Vodacom Mozambique had an estimated market share of approximately 40% as of March 31, 2008, compared to approximately 35% as of March 31, 2007 and 30% as of March 31, 2006 based on the total estimated mobile market. mCel continues to be an aggressive competitor and is expected to continue to be a formidable opponent in the future given its greater financial and market power. As of February 2006, mCel had soft-launched its GPRS offering to contract customers in the Maputo area and started with its full GPRS offering in May 2006. Vodacom Mozambique is focusing on coverage expansion, building sound distribution and delivering innovative value propositions underscored by a warm and receptive brand identity. A unique point of differentiation for Vodacom Mozambique has come from its corporate social investment projects which saw the complete reconstruction of a school in Maputo, as well as the construction of an entirely new school in Maputo that opened in May 2007 and the donation of books and encyclopedias to more than 40 schools nationally. During the 2008 financial year, Vodacom Mozambique implemented a revenue based corporate social investment fund whereby 0.02% of monthly prepaid and contract revenue is allocated to a corporate social investment fund administered by a board of trustees who will then allocate resources to charitable causes.

Vodacom Mozambique was accepted as a partner to the “Made in Mozambique” initiative in the 2007 financial year that is being propagated by the Ministry of Industry and Commerce. This venture is designed to promote local industry and export initiatives.

Vodacom Mozambique employed 210, 187 and 170 people as of March 31, 2008, 2007 and 2006, respectively. Vodacom Mozambique continues to support the development of local skills. A succession plan and development programs were implemented to transfer skills and knowledge to local employees. Staff issues are addressed via a consultative forum where they are given a platform to address issues.

In March 2006 the INCM was formally notified by the Administrative Tribunal that, upon Vodacom Mozambique’s application, Resolution 10/05 of December 20, 2005 that established significantly lower interconnection rates has been suspended. During October 2006, the Ministry of Communications published a Telecommunications Sector Strategy. This is the result of a project launched in prior periods to prepare a competition policy for Mozambique. The project was funded by the United States Agency for International Development, or USAID, and the World Bank. A discussion document was circulated for comment and Vodacom Mozambique was a member of the ministerial task force that assisted in the development of the policy. The strategy was prepared in anticipation of the end of TDM’s exclusivity in December 2007, and to prepare for convergence in the sector. The agenda of the Instituto Nacional das Comunicações de Moçambique, or INCM, for 2007, released in December 2006 included:

- preparation of service quality regulations;
- introduction of number portability (the INCM has already invited bids from consultants to investigate the introduction of portability);
- preparation of regulations governing the allocation of spectrum and service numbers;
- preparation of legislation ending TDM’s exclusivity;
- preparation of convergence legislation;
- preparation of an interconnection cost model; and
- the re-issue of licenses to conform to new convergence legislation.

In February 2007, the INCM appointed a consultant to facilitate the introduction of cost based interconnection. As a result of the study initiated by the INCM, asymmetrical interconnection rates have been introduced in Mozambique as of January 1, 2008 which have been agreed to by all operators for a period of two years ending December 31, 2009. The asymmetrical rates were proposed by the consultant as a result of Vodacom Mozambique’s late entry into the market and

include an annual inflation adjustment. This two year period will allow operators to develop their own interconnect costing models, based on the long term prospective incremental costs methodology, or LTPIC. If the results of such models clearly demonstrate to the remaining operators that there are substantial differences to the above-mentioned tariffs for 2009, the rates may be reviewed.

All operators have been informed by the INCM that all licenses are to be re-issued in compliance with the new Telecommunications Law of 2004. Vodacom Mozambique was invited to submit suggestions to any amendments it wished to make to its existing license. To date, no new licenses have been issued. However, Vodacom Mozambique applied to expand its international gateway rights and to lease transmission capacity to entities other than licensed telecommunication network operators, such as internet service providers and satellite companies, during the end of the 2006 calendar year but to date no formal response has been received from the INCM.

Vodacom continues to engage TDM in regards to excessive transmission prices. Vodacom informed the INCM that it is considering the sanctions available in terms of the law in respect of the pricing that can lead to TDM being declared a dominant operator.

Vodacom Mozambique believes that its ability to strictly manage costs in the face of low ARPU and low minutes of usage, while expanding coverage and distribution and intensifying promotional and product offerings, will be critical to achieving improved results.

Due to the competitive and economic environment in which Vodacom Mozambique operates, Vodacom assesses its assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of these assets was based on the fair value less cost of disposal at March 31, 2008, 2007 and 2006. The fair value of the assets was based on the assumption that the assets would be disposed of on an item by item basis. The amount by which the carrying amount exceeded the recoverable amount was recognized as an impairment loss in Vodacom's and Telkom Group's consolidated financial statements for the 2008 and 2007 financial years. In the 2006 financial year, this impairment loss was reversed in part due to an increase in the fair value of the assets.

Procurement – Vodacom South Africa

Vodacom South Africa solicits bids for all goods and services in excess of R1 million. Bids are through a closed tender system by invitation only. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier based on the best overall score, taking into account technical specification, delivery time, costing, financial viability, the participation of black economic empowerment partners and quality.

Vodacom spent approximately 72% of its eligible procurement expenditure with BEE companies during the year ended March 31, 2008, compared to approximately 71% during the year ended March 31, 2007 and approximately 66% during the year ended March 31, 2006.

The completion of Vodacom's BEE equity deal is expected to enhance Vodacom's transformation rating thereby improving its competitiveness in the procurement environment.

Vodacom seeks to utilize at least two suppliers for all critical equipment where possible to minimize supply risk. Vodacom's main technology suppliers are Siemens for the core and 3G network, and Alcatel-Lucent and Motorola for radio networks.

Other operations

Our other operations segment provides directory services, through our TDS Directory Operations Group, fixed mobile, data and other international communications services in Nigeria, through our newly acquired Multi-Links subsidiary, internet services outside South Africa, through our Africa Online subsidiary, and wireless data services, through our Swiftnet subsidiary, and includes Telkom Media. TDS Directory Operations and Swiftnet were previously included in our fixed-line segment.

TDS Directory Operations

We own 64.9% of TDS Directory Operations, the largest directory publisher in South Africa providing white and yellow pages directory services and electronic white pages. In the year ended March 31, 2008, TDS Directory Operations published approximately 2,460 million white, 2,078 million yellow and 3,375 million combined directories. TDS Directory Operations also provides electronic yellow pages and value added content through full color advertisements. TDS Directory Operations has improved the accessibility and distribution of directories through door-to-door delivery and electronic media. We also provide national telephone inquiries and directory services. The remaining 35.1% of TDS Directory Operations is owned by Maister Directories (Pty) Ltd. On January 23, 2007, TDS Directory Operations acquired a 100% shareholding in a shell company and subsequently renamed it TDS Directory Operations (Namibia) (Pty) Ltd, which provides directory services in Namibia. On October 31, 2008, TDS Directory Operations sold a 25% interest in TDS Directory Operations (Namibia) (Pty) Ltd to Ripanga Investment Holdings (Pty) Ltd, a black economic empowerment partner in Namibia, for two million Namibian dollars.

TDS Directory Operations' capital expenditures were R42 million in the 2008 financial year as the company sought to continue to expand access and distribution into new markets. TDS Directory Operations invested in a new online platform in order to combat declining revenue from printed products.

TDS Directory Operations' primary competitors for print materials include Caxton, Easy Info and Brabys. TDS Directory Operations' primary internet competitors include Yahoo, Google, Ananzi, as well as vertical search capabilities such as Auto Trader and Supersport. TDS Directory Operations' estimated market share as of March 31, 2008 was approximately 9% in respect of print media and approximately 11% in respect of internet directory services.

TDS Directory Operations had 610 employees as of March 31, 2008.

Multi-Links

With effect from May 1, 2007, Telkom acquired 75% of Multi-Links Telecommunications Limited, or Multi-Links, through Telkom International, a wholly owned South African subsidiary, in Nigeria, for U.S.\$280 million, or R1,985 million. The remaining 25% of Multi-Links is owned by Kenston Investment Limited, an investment company based in the Isle of Man in the United Kingdom. Multi-Links is a private telecommunications operator with a Unified Access License allowing fixed, mobile, data, long distance and international telecommunications services focused primarily on corporate clients in Nigeria. In the 2008 financial year, Multi-Links had R845.4 million of revenue and R2,206 million of total assets. Telkom expects to spend U.S.\$533 million in capital expenditures at Multi-Links in the 2009 financial year.

Multi-Links' Unified Access License was granted on November 1, 2006 and has a term of ten years, with eight years remaining. There are currently nine operators licensed with Unified Access Services Licenses in Nigeria, making the Nigerian telecommunications market extremely competitive as operators may use any access technology to deliver voice, data and video services to their customers.

Multi-Links' strategy will focus on brand awareness and promotional campaigns to increase the revenue of fixed-wireless and mobile customers and will seek to offer easy to understand high value bundles, differentiated on voice quality and service. Broadband internet with internet service provider services will target high value bundles. High quality internet protocol next generation network services are planned to be deployed in Lagos to attract high end corporate users and carrier class wholesale products and services are planned to be introduced by establishing an earth station to provide international connectivity.

Multi-Links' subscriber base increased 210% from approximately 262,000 as of September 30, 2007 to approximately 812,000 as of March 31, 2008 and increased to more than 1,000,000 shortly thereafter. Multi-Links offers a variety of mobile prepaid products to its customers. Talk 'n Talk is the most popular package and accounted for approximately 43% of Multi-Links' total customers as of March 31, 2008. Multi-Links' distribution is conducted through seven customer service branches, 320 independent dealers and a direct sales force of 226 employees. Customers are serviced through Multi-Links' customer service branches and call center. As a relatively new operator, Multi-Links had a low churn rate of approximately 2% in the 2008 financial year.

Multi-Links has a SAT3 co-location site at its Nitel Lagos cable station, which is operational with a 20 Meg internet protocol wholesale link to London carrying CDMA internet traffic. Multi-Links' adoption of a turnkey project strategy as a method to expedite service was instrumental in the achievement of targets with the first phase of the expansion of its fiber network being completed on a full turnkey delivery basis. Multi-Links is moving away from a build/own model for its cell sites towards a leasing model and approximately one third of its new cell-sites in the 2008 financial year are leased from service providers.

In the 2008 financial year, Multi-Links' build and expansion program achieved the following:

- commissioned its first Huawei packet exchange in Abuja with 300k capacity;
- extended its Lagos switch by 250k capacity to 600k capacity;
- extended the number of its towers from 91 to 223;
- extended the number of its base stations from 134 to 269;
- established a new main network site in Gbagada, Lagos; and
- added 1,300kms of national backbone fiber, resulting in a total of 2,500kms.

As from April 1, 2007 a new chief executive officer, Justin Ramayia, and a new chief financial officer, Hasnain Motlekar, have been appointed to Multi-Links. Multi-Links had 680 employees as of March 31, 2008. The number of customers per employee is 1,196 as of March 31, 2008.

The tariff structure of operators in Nigeria must be approved by the Nigerian Communications Commission, or NCC, before being implemented in order to ensure that they are not anti-competitive and that there is no cross subsidization of services as cross-subsidization is prohibited by the Nigerian Telecommunications Act. Every operator is allowed to set, vary and modify its tariff structure as approved by the NCC.

Interconnect agreements among operators in Nigeria are governed by Interconnection Regulations promulgated by the NCC. Only operators with valid operating licensees can interconnect with each other.

The prescribed rates for domestic traffic currently in force in Nigeria are set by the NCC as follows:

Description of Call	Tariff Rate
Near-End Fixed Termination	₦10.80
Far-End Fixed Termination	₦9.10
Mobile Termination	₦11.40
SMS	₦5.00

There are also a few licensed interconnect clearing houses, or ICHs, which are interconnected to all the major operators. The ICH provides transit services between small operators and larger ones, such as Multi-Links.

Any operator that has an International gateway license can carry international traffic and operators are free to determine who carries this traffic.

There were indications from the regulator that it is considering introducing number portability to the industry. There is currently no official policy or indications as to the expected time for implementation of number portability. Mobile number portability is not, however, expected to have a significant impact on the mobile market because mobile subscribers often already subscribe to more than one network, and also often subscribe to both CDMA and GSM networks.

The Universal Service Fund is currently being administered under the Nigerian Universal Access and Universal Service Regulations 2007 promulgated by the NCC. The National Assembly appropriates monies to the fund from time to time. Currently, the NCC is the major contributor to the fund. It contributes a portion of the annual operating levy it collects from all operators. However, under Nigerian Regulation 72, the NCC may establish a Universal Service Provider Levy which is a fee to be levied on all operators subject to annual operating levies in the event that available funding is insufficient for its current operational requirements. The amount to be levied cannot exceed 1% of any operator's net revenue. Multi-Links may therefore be required at some future time to pay this levy.

Operators are required by Section 38(1) of the Nigerian Economic and Financial Crimes Commission (Establishment) Act, 2004 and Sections 12 and 13 of the Nigerian Advance Fee Fraud and Other Related Offences Act 2006, to provide call data and other subscriber details which otherwise are confidential information.

The NCC in furtherance of its responsibilities under the Nigerian Telecommunications Act has issued guidelines on co-location and infrastructure sharing. The regulations are designed, among other things, to encourage co-location and infrastructure sharing among telecommunications operators in order to:

- ensure that the incidence of unnecessary duplication of infrastructure is minimized or avoided;
- protect the environment by reducing the proliferation of infrastructure and facilities installations;
- promote fair competition through equal access to the installations and facilities of operators on mutually agreed terms; and
- encourage operators to pursue a cost based policy in order to reduce tariffs chargeable to consumers.

Infrastructure that operators are encouraged to share with each other subject to commercial viability, technical feasibility and other agreed terms, including rights of way, masts, poles, antenna, tower structures, ducts, trenches, space in buildings and electric power. The NCC does not interfere in the negotiations between operators in this regard. If it is established, however, that negotiation toward reaching an agreement for co-location and infrastructure sharing between operators have broken down, the NCC may intervene on behalf of an aggrieved party and provide the terms upon which the operators involved would affect co-location and infrastructure sharing.

Presently, the NCC has not issued any licenses to USALs. However, under Section 112 of the Act, NCC is empowered to consider, design and determine a system which shall promote the widespread availability and usage of network services and applications services throughout Nigeria by encouraging the installation of network facilities and the provision of network services and applications services to institutions or customer groups and in unserved or underserved areas. There are indications that more than one operator may be selected to implement this project.

The NCC is undertaking an audit on WiMAX spectrum with the aim of possibly re-allocating spectrum segments to operators that do not have spectrum through an auction process. This will allow more operators to use WiMAX as a new competitive technology to deliver broadband services.

Africa Online

On February 23, 2007, Telkom acquired 100% of the issued share capital of Africa Online from African Lakes Corporation for a total cost of R150 million. Africa Online is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Africa Online's strategy will focus on brand development, creation and development of customer channels, improvement of network systems, human resources development and an expansion drive targeting other African countries. In the 2008 financial year, Africa Online had R110 million of revenue and R122 million of total assets.

Africa Online offers wireless and fixed technologies, hosting and domain registration to both consumer and corporate customers. In the 2008 financial year, dedicated corporate links and consumer wireless were the highest revenue streams followed closely by dial-up business. Dial up packages, however, are the most popular and accounted for approximately 60% of Africa Online's total customers as of March 31, 2008. Consumer wireless customers are expected to continue to grow with Africa Online's continued investment in infrastructure. The following table sets forth Africa Online's customers as of the periods indicated:

	<u>As of March 31,</u>		<u>2008/2007</u>
	<u>2007</u>	<u>2008</u>	<u>% change</u>
Dial-up ports	11,599	8,936	(23.0)
Consumer wireless	1,939	4,340	123.8
Unbundled local loop	100	174	74.0
ADSL	300	257	(14.3)
VSAT	26	84	223.1
Dedicated corporate	578	602	4.2
Total	14,542	14,393	(1.0)

The reason for the decrease in the number of dial-up and ADSL customers is that Africa Online has shifted its marketing approach to increase customers on its own wireless network infrastructure as opposed to dial-up and ADSL networks.

Africa Online's distribution is conducted through various channels including direct sales and different types of resellers depending on the customer segment. Customers are serviced through customer relationship managers and a 24 hour call center. Africa Online's primary competitors include former telecommunication companies that have entered the internet service provider market and other private companies.

Africa Online's network had 31 points of presence, 46 mobile broadband transceiver stations, 25 fixed broadband wireless access transceiver stations, 13 network operation and support centers and 12 data centers across nine countries as of March 31, 2008. Africa Online's capital expenditure was US\$5.7 million in the 2008 financial year as compared to US\$0.8 million in the 2007 financial year. The increase in Africa Online's capital expenditure was primarily for the improvement of service

quality and to increase the range of information, communications and technology services offered in the market.

Africa Online had 379 employees as of March 31, 2008. A new chief executive officer, John Joseph, and a new chief financial officer, Munaff Cassim, were appointed to Africa Online during May 2007.

Africa Online's footprint covers East Africa, Southern Africa and West Africa. The regulatory environments are fairly different in each of Africa Online's different regions. East Africa is liberalized and Africa Online provides services across the information, communications and technology spectrum, including voice over internet protocol services, in East Africa. Markets in Southern Africa are still regulated, limiting the services Africa Online is able to provide to its customers. West Africa is a fairly liberalized market and Africa Online is presently seeking to take advantage of this opportunity.

Telkom Media

Telkom recently launched Telkom Media (Proprietary) Limited, a private company that intends to have a 30% black economic empowerment shareholding, in addition to the Telkom BEE component, which on August 31, 2006 applied to ICASA for a commercial satellite and cable subscription broadcast license. From May 28 to June 12, 2007 ICASA held public hearings into the applications by 18 applicants for a satellite and cable subscription broadcast license. On September 12, 2007, ICASA granted Telkom Media a commercial satellite and cable subscription broadcast license, the issuance of which is subject to the negotiation and satisfaction of certain conditions, including the approval and finalization of the BEE component. We cannot assure you that Telkom Media will receive this license from ICASA or be able to launch commercial operations.

Partners in the black economic empowerment entity are Videovision Entertainment, MSG Afrika Media and WDB Investment Holdings (Proprietary) Limited.

Telkom recently announced its decision to substantially reduce its investment in Telkom Media, in which it had invested R326 million up to March 31, 2008, and was required to provide an impairment provision of R217 million. Telkom will be investigating all opportunities to do this in the best interest of Telkom shareholders and all other stakeholders. Telkom confirms it has received proposals relating to Telkom's announced intention to substantially reduce its stake in Telkom Media. No decision has been made to date and Telkom is currently reviewing the proposals and anticipates making a decision in the near future.

Telkom Media had 142 employees as of March 31, 2008. A chief executive officer, Mandla Ngcobo, and a chief financial officer, Lourens van Niekerk, were appointed to Telkom Media.

Swiftnet

We own 100% of Swiftnet, which operates under the name Fastnet Wireless Service. Fastnet is a wireless network providing asynchronous wireless access on our X.25 network, Saponet-P, to its customer base. This service has been expanded by Swiftnet to offer a GPRS driven solution using a dual SIM card allowing the customer to roam on both the Vodacom and MTN GPRS South African networks. Services include retail credit card and check point of sale terminal verification, telemetry, security and vehicle tracking.

Swiftnet's network has 180 base transceiver stations, and one base station network management center, Swiftnet currently runs a short message service over its network that feeds back into a third party operator connected to the mobile operators. Swiftnet currently operates two sites for redundancy purposes, one in Centurion and one in Rosebank, for modem and router based services.

Swiftnet has a number of regional offices nationally that manage more than 160 contractors. Customers are serviced through a tier 1 and tier 2 technical call center as well as in-house technicians and external contractors. Swiftnet has a sales team in support of various retail and wholesale relationships. Swiftnet had an estimated 33% market share in the Point of Sale communications market based on customers in the 2008 fiscal year, with strong competition from three main competitors, ConnectNet, X-Link and Datalink. New services such as ADSL router services are being developed to broaden the revenue stream dependency.

A new chief executive officer, John Myers, was appointed to Swiftnet as of July 9, 2007 and a new chief financial officer, Nokuthula Ngubeni, was appointed to Swiftnet as of April 4, 2008. Swiftnet had 85 employees as of March 31, 2008.

Swiftnet is in breach of its license that requires it to have at least 30% of its shares held by black economic empowerment individuals or entities. ICASA has required Swiftnet to remedy the breach of its license, which expired on August 24, 2006. On February 14, 2007 Telkom announced that it had entered into an agreement to sell a 30% stake in Swiftnet to the Radio Surveillance Consortium, a group of empowerment investors, for R55 million following a competitive sale process run by an independent adviser. The transaction would not have required any financial support or facilitation from Telkom. The transaction received Competition Commission approval on May 28, 2007, but was not approved by ICASA. Swiftnet is currently seeking black economic empowered individuals or entities who would be acceptable to ICASA. Swiftnet met with ICASA on January 28, 2008 to discuss its specific license terms and conditions. Swiftnet has submitted its comments on the draft license terms and conditions to ICASA that ICASA sent to Swiftnet during October 2007. Swiftnet, assisted by Telkom as its sole shareholder, has had a further meeting with ICASA on February 27, 2008. It was decided that the draft amended license that ICASA sent to Swiftnet during October 2007 would not form the basis of the conversion process, but instead the original license issued to Swiftnet in August 1995 would be used as the basis for license conversion. The transaction is still subject to ICASA approval. With regard to shareholder issues, ICASA indicated that there is currently no agreement within the industry as to acceptable BEE shareholding percentages for all licensees. ICASA indicated that the shareholding issue for the Swiftnet license would need to be in line with BEE values applicable to other similar licensees.

CAPITAL EXPENDITURES

For information relating to our capital expenditures, see Item 5. "Operating and Financial Review and Prospects – Liquidity and Capital Resources – Group Liquidity and Capital Resources".

REGULATION AND LICENSE REQUIREMENTS

Overview

The licensing and provision of telecommunications services in the Republic of South Africa has historically been subject to the Telecommunications Act and the extensive regulations made under the Telecommunications Act. The Telecommunication Act was repealed by the Electronic Communications Act when the Electronic Communications Act came into effect on July 19, 2006. While a new licensing regime has been created by the Electronic Communications Act, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime. Regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. As a result, the regulatory environment is evolving, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalized. In addition, the regulatory process entails a public comment process, which, in light of the politicized issue of

privatization of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified. ICASA has started several regulatory process, the most important of which are:

- the conversion of existing licenses to individual electronic communications services and electronic communications network services licenses;
- the establishment of the standard terms and conditions for class and individual licenses;
- the establishment of the special terms and conditions that may apply to each individual licensee;
- the determination of the definition of the various markets;
- the establishment of the methodologies that will be used to determine the level of competitiveness in each market and the existence of significant market power therein; and
- the determination of the regulatory remedies that may be imposed on a licensee upon a finding of significant market power.

It is not possible to determine at this stage the outcome of these processes or the timeframe within which they will be concluded. It is not, however, likely that ICASA will complete the license conversion process by July 2008 as stipulated in the Electronic Communications Act and will therefore be required to use the additional six month that the Act allows. It is likely that we will be found to have significant market power in many of the markets in which we operate and will have regulatory remedies imposed on us, including cost based prices for interconnection services and the leasing of communication facilities.

Electronic Communications Act

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the Telecommunications Act, however, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until they are amended or replaced by new regulations made to fully implement the provisions of the Electronic Communications Act. The bill, renamed the Electronic Communications Bill, was passed by the Parliament of South Africa in December 2005 and was signed by the President of South Africa on April 18, 2006. The Electronic Communications Act came into effect on July 19, 2006.

The Electronic Communications Act aims to supplement or replace sector specific legislation and change the market structure from a vertically integrated, infrastructure based, market structure to a horizontal, service based, technology neutral, market structure with a number of separate licenses being issued for different areas, and to clarify the different roles of ICASA and the Minister of Communications in policy development, licensing and regulation. The main aspects addressed by the Electronic Communications Act are:

- the policy making powers of the Minister of Communications;
- the regulation making, licensing and radio frequency spectrum control powers of ICASA;
- the licensing framework for communications and broadcasting services;
- the power of ICASA to intervene where special market conditions exist, such as significant market power or essential facilities;
- the obligations of licensees to interconnect and lease telecommunications facilities, and the powers of ICASA to enforce such obligations; and

- transitional provisions to address the conversion of existing licenses to the new licenses envisioned in the Electronic Communications Act.

The Electronic Communications Act has recently been amended to enable state investment and licensing in the sector. With that amendment, the Minister of Communications is empowered to initiate and facilitate strategic government infrastructure investments in information, communications and technology companies.

Implementation of the Electronic Communications Act

In order to give effect to the new licensing and regulatory regime set out by the Electronic Communications Act, ICASA is required to make a large number of regulations and determinations concerning, among other things, the conversion of existing licenses into electronic communications service and electronic communications network service licenses, the issuing of new class and individual electronic communications service and electronic communications network service licenses, the establishment of the pro-competitive framework consisting in the definition of markets, the determination of the level of competition and the existence of significant market power in these markets, and the establishment of pro-competitive remedies that can be imposed on licensees found to have significant market power in a market.

The main areas of regulation making that the Electronic Communications Act contemplates are those relating to interconnection, leasing of communications facilities, including the determination of which communications facilities are deemed to be “essential facilities,” the framework for the definition of relevant markets, the determination of the level of competition in each market, the determination of the existence of significant market power in relevant markets and the imposition of pro-competitive conditions on licensees found to have significant market power. The following draft regulations have been published by ICASA for comment:

- draft regulations setting out the conceptual framework for the definition of relevant markets or market segments;
- draft regulations setting out the methodology to be used to determine the effectiveness of competition in a defined market or market segment;
- draft regulations setting out the methodology to be used in determining that a licensee has significant market power in a defined market or market segment;
- regulations relating to the identification of pro-competitive measures on licensees found to have significant market power in a defined market or market segment;
- draft regulations pursuant to which ICASA will undertake periodic reviews of the markets, market segments and significant market power;
- draft regulations dealing with the administrative procedure that will be used when undertaking an investigation pertaining to anti-competitive conduct;
- draft regulations on the leasing of communications facilities;
- draft regulations on the identifications of communications facilities deemed to be essential facilities; and
- draft regulations on interconnection.

ICASA

In 2000, the Independent Communications Authority of South Africa Act, 13 of 2000, created ICASA, a regulatory body for the telecommunications and broadcasting industries. ICASA serves as the primary regulatory and licensing authority for the South African communications industry. Upon its establishment, ICASA inherited a legacy of regulatory problems from its predecessors. It has

been reported that ICASA may lack adequate resources to effectively fulfill its regulatory and licensing functions and to deal with regulatory challenges that continue to change given the rapidly evolving telecommunications environment.

A bill amending the ICASA Act, Act No. 13 of 2000, was passed by the Parliament of South Africa and signed by the President and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquires and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non-compliance with the Electronic Communications Act. There are many linkages between the Electronic Communications Act and the proposed amendments to the ICASA Act.

Policy directions

Under the Electronic Communications Act, the Minister of Communications may make policies and, subject to a one month public comment period, issue policy directions to ICASA except in respect of the granting, amendment or withdrawal of communications or broadcasting licenses. ICASA, in exercising its functions, must consider policies made or policy directions issued by the Minister.

Regulations

Under the Electronic Communications Act, ICASA may, subject to public consultation, make regulations on any matter as provided in the Electronic Communications Act, and any such regulation may declare any contravention thereof to be an offense. ICASA must, among other things, make regulations relating to the granting of licenses, radio frequency spectrum management, allocation of numbers, interconnection, facilities leasing, the declaration of essential communications facilities and the identification of relevant markets for the purpose of determining the existence of significant market power. ICASA may also make regulations to impose special obligations on licensees found to have significant market power in a relevant market.

Under South African law, it is possible for licensees such as Vodacom and Telkom and for other interested parties to have the regulations and rulings issued by ICASA reviewed and tested in a court of law for compliance with the objectives and other provisions of the Electronic Communications Act, and other relevant laws such as the South African Constitution.

The Electronic Communications Act is not entirely clear on a number of issues which are expected to be addressed by regulation. In addition, because ICASA was only established in 2000 and the regulations governing the telecommunications industry in South Africa are evolving, lack of clarity exists in a number of areas that are still subject to interpretation, review and amendment. Therefore there is some degree of regulatory uncertainty for Telkom, Vodacom and other communications providers. In addition, the regulatory process entails a public comment process which, in light of the politicized issue of the privatization of industries such as telecommunications in South Africa, makes the outcome of the process uncertain and may cause delays.

Licensing framework

The types of licenses that can be granted are:

- electronic communications network services for the provision of communications infrastructure for the own use of the licensee or for the use of other licensees, including broadcasters;
- electronic communications services for the conveyance of communications over electronic communications networks, but excluding broadcasting services;

- broadcasting services for the unidirectional broadcasting of television or sound material; and
- radio frequency spectrum licenses.

ICASA may make regulations prescribing that certain services may be provided without a license. The Electronic Communications Act provides that licenses for electronic communications network services, electronic communications services and broadcasting services can be issued as individual licenses or as class licenses. Individual licenses are required for electronic communications network services and commercial and public broadcasting services that are of provincial or national scope, for electronic communications services for voice telephony utilizing numbers from the national numbering plan, for any service where a state entity owns more than 25% of the share capital of the licensee, and for any service that ICASA finds to have significant impact on socio-economic development. ICASA may only accept and consider applications for individual electronic communications network service licenses following a policy direction issued by the Minister of Communications. The granting of individual licenses is subject to an extensive process of evaluation that includes public hearings. The granting of class licenses is subject to a simple process of registration. A draft regulation providing the framework for the granting of licenses was published by ICASA for comment on March 7, 2007. In addition, the Minister of Communications has issued a policy direction to ICASA requesting it to consider whether VANS licensees should be authorized to provide services as well as provide and operate facilities or networks. ICASA subsequently announced the names of certain VANS licensees whom they considered eligible for being awarded electronic communications network services licenses. Other VANS who were not selected are challenging ICASA in litigation with regard to its process of converting VANS licenses. ICASA would have to issue network service licenses for such networks. We expect that the new licensing framework will result in the market becoming more horizontally integrated and will substantially increase competition in our fixed-line business.

The following licensing regulations have been finalized:

- regulations on the processes and procedures for the registration, amendment, renewal, surrender and transfer of class licenses;
- regulations on the processes and procedures for applications for individual electronic communications service licenses, electronic communications network service licenses and broadcasting licenses;
- regulations on the standard terms and conditions for individual and class licenses for electronic communications service, electronic communications network service and broadcasting;
- regulations setting out the minimum standard for end-users and subscriber service charters. ICASA has subsequently published a notice inviting comments for a possible reconsideration of those standards due to requests from the industry; and
- regulations outlining a code of conduct for electronic communications licensees and electronic network communications licensees.

Regulations on license fees are still outstanding as it appears that ICASA has not yet received the required direction from the Minister of Communications.

License conversion

All existing licenses are to remain valid until converted by ICASA in line with the new licensing framework, which is required to be done within 24 months from July 19, 2006, the commencement date of the Electronic Communications Act. As a result, Telkom's licenses will be converted to new licenses in accordance with the new licensing regime. Conversion is required to be on no less favorable terms than the original license. However, as part of the conversion process, ICASA may grant rights and impose obligations on the licensee, in order to ensure that the existing licenses comply with the Electronic Communications Act. ICASA has started a process of converting our

licenses to the new licensing framework. The process of converting our radio spectrum licenses started in October 2006, but has not yet been finalized. Regulations providing the framework to convert our PSTS and VANS licenses have been published by ICASA, including the standard terms and conditions that will apply to all electronic communications services and electronic communications network services licenses, including ours. In addition to standard terms and conditions generally applying to a type of license, the Electronic Communications Act provides that ICASA may set out additional terms and conditions applicable to any individual license or class license. ICASA has proposed draft additional conditions applicable to the electronic communications service and electronic communications network service licenses that will be issued to existing licensees, including Telkom, and has drafted proposed additional terms and conditions for Telkom's licenses. Telkom has formally commented on these proposed terms and conditions as they apply to it. ICASA, after taking into account the comments received, is expected to publish the final proposed terms and conditions for public comment. ICASA is required to complete the license conversion process by July 18, 2008. It is, however, not likely that they will meet this target and will use the six additional months provided for in the Electronic Communications Act to complete this process.

The process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit.

Existing regulations

All existing regulations are to remain in force until repealed or amended by ICASA. However, many of the existing regulations may be required to be amended and many additional regulations may need to be made to fully implement the Electronic Communications Act. ICASA's capacity may be further strained by the workload that will be imposed on it by the Electronic Communications Act, which creates further uncertainties in the regulatory arena and the ability of ICASA to effectively fulfill its functions. We cannot predict the outcome or timing of any amendments or modifications to applicable regulations or the interpretation thereof, the release of new regulations or their impact on us. ICASA has issued draft regulations in respect of the subsidization of mobile handsets. These draft proposals have all been published for public comment, but no hearings on the public comments have yet been held by ICASA and no final regulations have been made yet.

Licensing of the second national operator

In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, Neotel, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. On March 19, 2008 Neotel announced that the Competition Tribunal of South Africa had approved its acquisition of Transtel without any conditions. Neotel was licensed on December 9, 2005 and commercially launched on August 31, 2006 and commenced providing services in the beginning of the 2007 calendar year to corporate customers and other licensees. On April 25, 2008, Neotel announced that the first of its consumer products were available to limited parts of Johannesburg and Pretoria.

Licensing of Infraco

The Government has created an infrastructure company, Infraco, which stated it would provide inter-city bandwidth at cost based prices to Neotel, and later to the rest of the industry, which will further compete with our communications network as an alternative provider of communications infrastructure. The Government's pronouncements indicate that Infraco will also lead the

establishment of a submarine cable from South Africa to Europe along the west coast of Africa, in partnership with private enterprise.

Underserved areas

A process to issue additional licenses to small business operators to provide telecommunications services in underserved areas with a teledensity of less than 5% commenced in 2005 and is continuing. The Minister of Communications has identified 27 of these underserved areas. ICASA has issued licenses to successful bidders in seven of them and the Minister has issued invitations to apply for licenses in 14 additional areas. In August 2006 ICASA recommended to the Minister that licenses be granted to successful applicants in 13 of these areas. While it was expected that further licenses would be issued in the 2007 calendar year, no additional licenses have been issued. The Minister of Communications has issued a policy direction to ICASA directing it, where there is more than one license in a province, to merge the licenses and issue one Provincial Under-Served Area Network Operator, or PUSANO license. None of these consolidated licenses have yet been issued by ICASA.

Competition matters

The Electronic Communications Act replaces the concept of Major Operator status, which was developed by ICASA through regulations, with that of significant market power in a market or market segment. Factors in determining significant market power are, among others, dominance or control of essential facilities. The Electronic Communications Act empowers ICASA to impose pro-competitive conditions on operators found to have significant market power in such markets or market segments that have ineffective competition, which may affect the manner in which interconnection is provided and facilities are leased by such operators, and the charges thereof.

If we are found to have significant market power in any of the markets in which we operate, we may be required to provide interconnection and facilities to our competitors at or near the long run incremental cost, of those services or facilities, and our operating revenue and net profit could decline. On January 29, 2007, ICASA published a consultation document for public comment and on May 17, 2007 it held a public enquiry on its intention to define relevant call termination wholesale markets. In its consultation document ICASA expressed the preliminary view that all providers of telecommunications networks, including Telkom and Vodacom, have significant market power in their call termination markets and that the appropriate price controls to be applied to the large operators, MTN, Vodacom and Telkom, is the long run incremental cost calculated on the basis of relevant forward looking economic costs of an efficient operator, including a reasonable cost of capital. In its findings published on November 9, 2007, ICASA confirmed that it considers each terminating network to be a separate market, however, it also recognized that the enquiry findings had to be restricted to defining the market and that any pronouncement in respect of a determination of significant market power and any remedies that may flow from such determination will be done by means of regulations made in accordance with different processes, as envisaged in Section 67 of the Electronic Communications Act. Regulations are expected to follow in due course. On May 3, 2007 ICASA published a consultation document for public comment, on its intention to define relevant end to end leased lines and other wholesale markets. In its consultation document ICASA defined the wholesale markets for fixed-line local loop access, fixed-line narrowband exchange lines, call origination and call conveyance, symmetric broadband originator services, trunk services for transmission within South Africa and international leased lines. ICASA expressed the preliminary view that Telkom is deemed to have significant market power in all these markets and that the appropriate price control to be applied is likely to be the long run incremental cost, calculated on the basis of relevant forward looking economic costs of an efficient operator, including a reasonable cost of capital. Regulations are expected to follow in due course, but probably not before the regulations dealing with

market analysis, the determination of the level of competition and the determination of significant market power are completed. Where ICASA determines that a licensee has engaged or intends to engage in an act that is likely to substantially prevent or lessen competition, ICASA may direct the licensee to cease or refrain from engaging in such act and may impose penalties for failure to comply with such direction.

Interconnection

The Electronic Communications Act provides that any licensee, other than broadcasting service licensees, must, on request, interconnect with any other licensee, unless such request is unreasonable, and must enter into an interconnection agreement with the requesting party for this purpose. Where the parties are unable to reach an agreement, the Electronic Communications Act confers on ICASA the power to intervene and propose, or impose, terms and conditions for the interconnection agreement, or refer the matter to the Complaints and Compliance Committee, established as provided in the amendments to the ICASA Act described above, for resolution. ICASA must review any interconnection agreement to determine whether it is consistent with the regulations and, if the agreed terms are not consistent with the regulations, direct the parties to agree on new terms and conditions.

Any dispute arising under an interconnection agreement can be referred by a party to the Complaints and Compliance Committee for resolution, and any decision of the Complaints and Compliance Committee is effective and binding on the parties, unless an order of a court of competent jurisdiction is granted against the decision.

ICASA may exempt a licensee from the obligation to interconnect where such licensee has not been found to have significant market power in the relevant market. ICASA must prescribe regulations to facilitate the conclusion of interconnection agreements by stipulating interconnection agreement principles. ICASA may prescribe a framework of wholesale interconnection rates to be charged in circumstances where the existence of significant market power has been determined.

The interconnection agreements between Telkom and Vodacom and MTN that preceded the Telecommunications Act were renegotiated and amended in 2001. An interconnection agreement, on substantially the same terms, was negotiated and concluded with Cell C. An interconnection agreement has also been concluded between Telkom and Neotel and filed with ICASA on March 6, 2007. Interconnection agreements have also been concluded between Telkom, the USALs and those VANS licensees to whom ICASA has granted access to subscriber numbers. An interconnection agreement has also been signed with Sentech. An unresolved issue is whether these interconnection agreements will be required to be amended after the final interconnection regulations are promulgated. The Electronic Communications Act and draft interconnection regulations compel operators to provide interconnection on a non discriminatory basis, whereas currently each class of operator receives a different interconnection rate.

ICASA has begun a review process of mobile termination rates aimed at reducing high mobile interconnect charges, which, once completed, is also likely to impact upon Telkom's own termination rates and interconnection revenues. ICASA has issued draft regulations on interconnection. The draft regulations provide for a general obligation to interconnect by all licensees. The draft regulation does not provide for interconnection rates. These will be dealt with by regulations made as a result of the market review process.

Facilities leasing

The Electronic Communications Act provides that an electronic communications network licensee must, on request, lease electronic communications facilities to any other licensee, unless such request is unreasonable, and must enter into a facilities leasing agreement with the requesting party

for this purpose. Where the parties are unable to reach an agreement, the Electronic Communications Act confers on ICASA the power to intervene and propose, or impose, terms and conditions for the facilities leasing agreement, or refer the matter to the Complaints and Compliance Committee for resolution. ICASA must review any facilities leasing agreement to determine whether it is consistent with the regulations and, if the agreed terms are not consistent with the regulations, direct the parties to agree on new terms and conditions.

Any dispute arising under a facilities leasing agreement can be referred by a party to ICASA, and the Complaints and Compliance Committee must resolve the dispute and any decision of the Complaints and Compliance Committee is effective and binding on the parties, unless an order of a court of competent jurisdiction is granted against the decision.

ICASA may exempt a licensee from the obligation to lease communications facilities where such licensee has not been found to have significant market power in the relevant market. ICASA must prescribe regulations to facilitate the conclusion of facilities leasing agreements by stipulating facilities leasing agreement principles. ICASA may prescribe a framework of wholesale rates applicable to specified electronic communications facilities in circumstances where the existence of significant market power has been determined. Notwithstanding a finding of significant market power, ICASA may exempt, under certain circumstances, an electronic communications network licensee from the obligation to lease fiber loops and sub-loops serving residential premises. ICASA has issued draft regulations on facilities leasing. The most significant impact on Telkom would be the obligation to build facilities to satisfy such request where no spare capacity is available. ICASA must prescribe a list of essential facilities, including local loops and sub-loops and associated electronic communications facilities, and electronic communications facilities connected to international electronic communications facilities such as submarine cables and satellite earth stations. ICASA may require that essential communications facilities be supplied at a cost based price, likely to be the long run incremental cost of that facility. The Minister of Communications has issued a policy decision declaring November 1, 2007 as the date from which the exclusivity provisions in our SAT-3 agreements shall be declared null and void. The Minister of Communications has also issued a policy direction to ICASA requiring it to prioritize and urgently prescribe a list of essential facilities, ensuring that the facilities connected to the SAT-3/WASC/SAFE submarine cables can be accessed soon. ICASA has established a draft regulation for public comment in compliance with this policy direction.

On December 24, 2007, the Minister of Communications published "Proposed Guidelines for the Rapid Deployment of Electronic Communications Facilities". If the final guidelines are published in their current form, they will not affect our rights in our existing submarine cables and landing stations, but may affect our ability to be parties to new submarine cables and landing stations, which might negatively affect our ability to meet demand for international communications services.

A fixed link facilities leasing agreement which provides for leasing by Neotel of 2 Mbps leased lines has been concluded between Telkom and Neotel and filed with ICASA on September 12, 2006. Further agreements for the leasing by Neotel of other facilities are expected to be negotiated as required. If we are unable to negotiate favorable terms and conditions for the provision of the services and facilities covered by the guidelines or ICASA otherwise imposes terms and conditions that are unfavorable to us, our business operations could be disrupted and our net profit could decline.

Unbundling the local loop

While the Telecommunications Act provided that we were not to be required to unbundle our local loop for a period of two years after the issue of a license to Neotel, The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop.

On May 23, 2007, the Local Loop Unbundling Committee set up by the Minister of Communications to develop appropriate policies for the unbundling of the local loop in South Africa submitted its report to the Minister of Communications recommending, among other things:

- three forms of local loop unbundling to be considered, full unbundling of the metallic loop, line sharing and wholesale bit stream access; and
- the regulatory process, with full industry participation should commence as soon as possible and be completed in 2011.

The Minister of Communications published policy decisions that the process of unbundling the local loop in South Africa should be urgently implemented and completed by 2011. In compliance with the Minister's request ICASA has initiated consultations with Telkom on the process to be followed, and is expected to soon open consultation with all other stakeholders. ICASA plans to set up consultative committees to consider policy and legal, technical and processes, and financial, economic and competition issues relating to unbundling the local loop.

Tariffs

For a discussion of our tariffs and the regulations related thereto, see Item 4. "Fixed-line communications – Fees and tariffs", and for a discussion of Vodacom's tariffs and the regulations thereto, see Item 4. "Mobile communications – Fees and tariffs."

Universal service obligations and service quality targets

As part of our five year exclusivity period ended May 7, 2002, we had 16 service quality and line roll-out targets for our fixed-line business. We substantially met all of our fixed-line service and line roll-out targets with the exception of our residential fault rate target, our aggregate fixed-line roll-out target and targets which required us to provide service to underserved villages and to replace analog lines with digital lines. ICASA has started a process to convert existing licenses to the new licensing framework contained in the Electronic Communications Act. It is possible that as a result of the conversion process quality of service targets will again be imposed on us with penalties if targets are not met.

Draft regulations on the pricing and provision of ADSL services were published by ICASA, which would, among other things, have prohibited Telkom from charging a monthly rental for providing ADSL service and limited Telkom to charging only an installation fee for such service. The final regulations published by ICASA on August 17, 2006 did not contain any limitations on the pricing of these services, but did impose quality of service obligations on Telkom for these services related to, among other things:

- services to be provided within 30 working days from application in ADSL enabled exchanges;
- the provision of uncapped local bandwidth;
- the guarantees of minimum speeds;
- the prohibition of port prioritization; and
- the prohibition of periodic resets.

When the regulations were published we were not able to fully comply with them. We informed ICASA of the areas of non compliance and provided ICASA our proposed plans to become compliant. ICASA raised no objections to our proposed approach. Since then, we have made several changes to the various ADSL service offerings to ensure compliance. A customer brought a case against us to ICASA's Complaint and Compliance Committee in 2007, alleging non-compliance with the ADSL regulations. ICASA's Complaint and Compliance Committee ruled in our favour.

Our public switched telecommunications license requires us to provide basic voice telephone service to every person in South Africa who requests such service, who can afford it and who enters into a contract with us for such service, and to install, connect, maintain and repair a telephone to use such service, and provide access to emergency organizations and directory information services. However, we are not required to provide the foregoing services where ICASA determines that the demand for such services can be met by other means and, as a result, it would be unduly burdensome in the circumstances for us to provide the telecommunications service requested.

The Minister of Communications issued a public statement in 2002 describing our future obligations to assist in the continued development of communications services to the South African population. The obligation will be a contribution to the Universal Service Fund, or USF, and ongoing universal service obligations imposed on us through the generic terms of our license. In the past we had to contribute to the USF R10 million per annum escalated by inflation from 1997. Beginning in the 2005 financial year, such contribution was set at 0.2% of the prior year's annual turnover derived from the provision of telecommunications service that it is licensed to provide. Telkom paid R61.8 million in July 2007 for this contribution pursuant to its license. Vodacom's contribution to the USF is on the same basis as Telkom. Vodacom paid R65.1 million in the 2008 financial year for this contribution pursuant to its license.

We have been issued with frequency spectrum licenses in the 1800 MHz and 2100 MHz bands. While no special obligations have been imposed in these licenses, ICASA has indicated that obligations may be imposed at a later stage, the nature of which is not known at this date.

New social obligations were imposed with Vodacom's new 1800 MHz license and third generation spectrum license or 3G. The 1800 MHz frequency spectrum band obligations require Vodacom to provide a minimum of 2,500,000 SIM card packages with certain privileges to designated individuals within five years; a minimum of 125,000 handsets within five years; and a minimum airtime window period of 12 months for these SIM cards. The 3G radio spectrum band obligations require Vodacom to provide: internet access to no less than 140 institutions for persons with disabilities within three years; internet access to no less than 5,000 public schools within eight years; and a minimum of 1,400 handsets within three years. The Department of Communications has assisted in the identification of certain beneficiaries within various government departments and the license stipulates that roll-out can only commence upon approval of the implementation plans by ICASA. The implementation plans in respect of 1800 MHz and 3G were submitted to ICASA in August 2005. The 1800 MHz obligation is currently on hold due to a tariff dispute. ICASA has approved the 3G roll out plans for the following provinces: Gauteng (50), Northwest (47), Limpopo (69), KwaZulu-Natal (136) and Eastern Cape (413). Vodacom has completed rollout in Gauteng, Northwest and Limpopo. KwaZulu-Natal and Eastern Cape are still in progress. Vodacom proposed that airtime used on the SIM cards be charged at a uniform rate to be agreed between all three mobile operators and the internet usage rates be at a 50% discounted rate, as provided for in the Telecommunications Act.

Vodacom has been funding the training of community services telephone operators since the 2005 financial year. The focus during the 2005 and 2006 financial years, was on growth management, financial management and marketing. The focus during the 2007 and 2008 financial years was on basic business skills, growth management, financial management and marketing. Vodacom's universal service obligations consists of a contribution to the USF and possible new universal access obligations.

Regulatory accounts

Under the Electronic Communications Act and our public switched telecommunications service license, we are required to report and account to ICASA, our retail and wholesale activities using a specific accounting methodology set out in a Chart of Accounts and Cost Allocation Manual, or COA/CAM. The adoption of this methodology by us requires the aggregating and disaggregating of

general ledger accounts in a different manner than we prepare accounts in accordance with IFRS. These accounts are known as the regulatory financial statements. It also requires a reconciliation of our regulatory accounts with our annual financial statements. We were required to put the necessary accounting and management information systems, which would have enabled us to prepare such reports and accounts, in place by May 7, 2002, subject to ICASA issuing the COA/CAM regulations. The regulations, however, were only published on July 19, 2002. After negotiations with ICASA, Telkom submitted its regulatory financial statements based on the historical cost of the company on September 30, 2004, and submitted its current cost regulatory financial statements to ICASA on September 30, 2005 and its current cost regulatory financial statements with reports indicating the long run incremental cost for the 2006 financial year on September 30, 2006. The COA/CAM regulations also require us to develop procedures manuals that set out how we will implement the COA/CAM accounting methodology in practice. The procedures manual for the accounting separation on an historical cost basis was approved by ICASA on June 30, 2004, while the procedures manual for the conversion to the current cost basis was submitted to ICASA on July 5, 2005 and the procedure manual for accounting on a long run incremental cost basis was submitted to ICASA on March 31, 2006 for their approval. The same set of complete procedures manuals were again submitted to ICASA on September 30, 2007. ICASA instituted a review of the regulatory financial statements and the supporting procedures manuals in January 2008, which was finalized during March 2008. While ICASA indicated their general acceptance of the work done in the finalization of both the procedures manuals and the regulatory financial statements, ICASA did request Telkom to provide more detail on certain issues such as some of the allocations methodologies used. In addition they raised a concern relating to the inadequate disclosure of the pre-tax weighted average cost of capital used and wholesale results. Telkom has agreed with ICASA that this information will be disclosed in more detail in the 2008 regulatory financial statements submission.

Carrier pre-selection

The Telecommunications Act mandates that fixed-line operators are required to implement carrier pre-selection, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. These provisions are retained in the Electronic Communications Act. Regulations were published on June 24, 2005 for the implementation of carrier pre-selection in two phases. In phase one, call-by-call carrier pre-selection must be implemented and must be provided by an operator within two months of it being requested by another operator. In phase two, fully automatic pre-selection must be implemented and must be provided by an operator within ten months of it being requested by another operator. Telkom had already conditioned its exchanges to handle call-by-call carrier pre-selection by December 31, 2003. On February 12, 2008, Telkom met with Neotel to discuss their request for implementing carrier pre-selection. Telkom will not be able to fully implement carrier pre-selection until Neotel's interconnection systems and the inter-operator process and systems to support carrier pre-selection become available, however, Telkom does not believe that it will be able to implement automatic carrier pre selection within ten months of it being requested. The request for phase 2 of carrier pre-selection can only be made after the functional specification and ordering system specification have been agreed to between Telkom and Neotel and approved and published by ICASA. Call-by-call carrier pre-selection will be implemented in 2008 once the interconnection agreement has been amended, the testing phase has been completed successfully and Neotel has received its prefix code from ICASA. Regulations indicate that the system set-up costs may be recovered as part of the prescribed annual review of fees and charges, but no further detail is available. ICASA has not yet defined the manner in which such costs could be recovered. In addition, we may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline and the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

Slamming, which is the transfer of a user from one operator to another without such user's knowledge or authorization, is to be prohibited. There is a risk that the procedure to combat slamming may not be effective and would result in further market share losses. Carrier pre-selection is not applicable to mobile cellular operators.

Number portability

The Telecommunications Act mandates that number portability to enable customers to retain their fixed-line and mobile telephone numbers if they switch between fixed-line operators or between mobile operators be introduced. These provisions are retained in the Electronic Communications Act. A framework number portability regulation was published at the end of 2004 that generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. Telkom is required to implement number portability in blocks of 10,000 numbers within two months after Neotel launches such retail services and individual number portability within 12 months of receiving a request from Neotel. Telkom has received a request from Neotel to implement both block and individual number portability and Telkom and Neotel are currently in the process of finalizing the testing for the introduction of block number portability which is scheduled to take place in the middle of the 2008 calendar year. Number portability will therefore be phased in commencing with number portability in blocks of 10,000 numbers, followed by number portability in blocks of 1,000 numbers and then individual number portability. After several delays mobile number portability phase one was launched on November 11, 2006. Phase 2, which was implemented during April 2007, includes multi-line porting, secure file transfer protocol access to third parties and operational software upgrades on the central reference data base. From launch until the end of March 2008 there have been 192,289 successful ports. In the 2007 financial year, Cell C registered a net gain of 14,057 subscribers, Vodacom a net loss of 6,018 subscribers and MTN a net loss of 8,039 subscribers. In the 2008 financial year Vodacom registered a net gain of 4,484 subscribers, MTN a net gain of 6,138 subscribers and Cell C a net loss of 10,622 customers.

The set-up and per-operator costs are typically the largest cost components of implementing number portability. Similar to carrier pre-selection, there is a risk of not fully recovering system set-up costs. In addition, we may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline and the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

Licenses

Fixed-line telephone services

Public switched telecommunications services

On November 15, 1996, we were deemed to be the holder of a license to provide public switched telecommunication services under the Telecommunications Act and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to provide public switched telecommunications services in South Africa for a minimum period of 25 years, which included our exclusivity period of five years that ended on May 7, 2002.

Under this license we are authorized to provide, among other things, the following:

- national long distance telecommunications services;
- international telecommunications services;
- local access telecommunications services;
- public pay telephone services;

- fixed-lines, infrastructure and facilities required to provide the above services;
- telecommunications facilities to be used by any person for the provision of value-added network services;
- telecommunications facilities comprising fixed-lines to be used by operators for the provision of mobile communications services and any other telecommunications services;
- telecommunications facilities to be used by any person for the provision of any private telecommunications network, with the exception of certain private telecommunications networks situated on a single piece of land or two or more contiguous pieces of land owned by the same person, or maintained by Transnet or Eskom as authorized under the Telecommunications Act;
- connection to our network of any other licensed telecommunications system or service both inside and outside of South Africa; and
- conveyance of signals to and from telecommunications systems and equipment connected to our network, together with any switching or other services incidental to such conveyance.

Additionally, we are entitled under the Telecommunications Act to manufacture, sell, supply, distribute and maintain certain telecommunication facilities and equipment, including customer premises equipment and software, provided that ICASA consents to the commercial marketing, distribution or sale of such facilities or equipment.

Furthermore, the 2001 amendment to the Telecommunications Act provides for fixed-mobile services to be deemed a new public switched telecommunications service that may be provided with a public switched telecommunications service license or an underserved area license. A fixed-mobile service is a service that permits a customer of the licensee to access the public switched telecommunications network of the licensee and obtain telecommunications services from such licensee from either a fixed point or while in motion within the local exchange area, but does not permit or include call handover between cells. Our public switched telecommunications service license was not amended to include fixed-mobile services. No similar provision is contained in the Electronic Communications Act.

The license fee payable by us under this license amounts to 0.1% of our annual revenues generated from the provision of the licensed public switched telecommunications services.

Our public switched telecommunications services license may be revoked by ICASA if we repeatedly fail to comply with an order made by ICASA pursuant to the Telecommunications Act and fail to correct the non-compliance within 90 days of being requested to comply, or if we are placed in final liquidation or put under a provisional or final judicial management order.

We are also obliged to publish our charges and the manner which we adopt for determining those charges in respect of the various telecommunications services provided by us. Provision is also made for the protection of customer confidentiality and other information that we receive from our customers in the course of providing telecommunications services to them. Bills to our customers must reflect the type of service, the units for which charges are made, and at a minimum, the starting time of each connection, the number called and the duration and number of units for each call. Our records must identify for customers the basis for the amount charged for the use of our services and we are required to retain such information to allow ICASA the ability to have an independent quality assurance check performed to ensure that the billing process complies with the aforesaid requirements.

Our license also requires us to establish efficient procedures, taking into account predominant regional languages and to provide assistance to customers with complaints during normal business hours. Our procedures for dealing with customer complaints must include a procedure for referring any disputes relating to such complaints to an affordable independent arbitration procedure instead of a court. Finally, we are required, in consultation with ICASA, to prepare and publish a code

of practice that duly takes account of predominant regional languages, giving guidance to our customers in respect of any disputes with or complaints from such customers relating to the provision of telecommunications services.

ICASA has started a process to convert existing licenses to the new licensing framework contained in the Electronic Communications Act. It is possible as a result of the conversion process, quality of service targets will again be imposed on us with penalties if targets are not met.

Other licenses

On November 15, 1996, we were deemed to be the holder of a license to provide value-added network services under the Telecommunications Act and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to provide value-added network services on a non-exclusive basis for a period of 25 years.

Our value-added network service license may be revoked by ICASA if we repeatedly fail to comply with an order made by ICASA and fail to correct the non-compliance within 90 days, or if we are placed in final liquidation or under a provisional or final judicial management order.

On February 21, 1997, we were deemed to be the holder of a radio frequency spectrum license to provide telecommunication services and facilities, and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to use the relevant bands of radio frequency spectrum. We use the radio spectrum for the provision of fixed links within our network, both land based and satellite, and for wireless local loop applications. Where these bands were licensed to us on a shared or non-exclusive basis, ICASA is to ensure that any other licenses issued to other entities do not create harmful interference with our use of the radio frequency spectrum. Our use of the radio frequency spectrum is subject to our compliance with the relevant provisions of international telecommunications conventions, the radio regulations and the International Telecommunications Union radio regulations agreed to or adopted by South Africa. We are only authorized to use our assigned frequency bands for the provision of public switched telecommunication services.

Our radio frequency spectrum license may be revoked by ICASA if we repeatedly fail to comply with an order made by it and fail to correct the non-compliance within 90 days of being requested to comply, or if we are placed in final liquidation or under a provisional or final judicial management order. Additionally, our radio frequency license will terminate if our public switched telecommunication services license is terminated.

Under the Telecommunications Act each of Vodacom, MTN, Telkom and Neotel are entitled to apply for, and acquire, licenses for the use of 1800 MHz radio frequency spectrum and radio frequency spectrum for the provision of third generation services. Cell C's existing license already includes the right to use radio frequency spectrum in the 1800 MHz band. Vodacom and MTN have obtained licenses for the use of 1800 MHz radio frequency spectrum and radio frequency spectrum for the provision of third generation services and Telkom has been granted additional radio frequency spectrum licenses and access to portions of the 350 MHz, 3.5 GHz, 26 GHz and 38 GHz radio frequency bands, which can be used for various services as stipulated in its license. Recently Telkom was also assigned radio frequency spectrum licenses for both the 1800 MHz and 2100 MHz (3G) radio frequency bands.

Our Swiftnet subsidiary has been granted a telecommunications license and a radio frequency spectrum license providing for:

- Swiftnet to construct, maintain and operate a national wireless data network and to provide wireless data telecommunication services; and
- interconnection with our network.

Swiftnet is in breach of its license that requires it to have at least 30% of its shares held by black economic empowerment individuals or entities. ICASA has required Swiftnet to remedy the breach of its license, which expired on August 24, 2006. On February 14, 2007 Telkom announced that it had entered into an agreement to sell a 30% stake in Swiftnet to the Radio Surveillance Consortium, a group of empowerment investors, for R55 million following a competitive sale process run by an independent adviser. The transaction would not have required any financial support or facilitation from Telkom. The transaction received Competition Commission approval on May 28, 2007, but was not approved by ICASA. Swiftnet is currently seeking black economic empowered individuals or entities who would be acceptable to ICASA. Swiftnet met with ICASA on January 28, 2008 to discuss its specific license terms and conditions. Swiftnet has submitted its comments on the draft license terms and conditions to ICASA that ICASA sent to Swiftnet during October 2007. Swiftnet, assisted by Telkom as its sole shareholder, has had a further meeting with ICASA on February 27, 2008. It was decided that the draft amended license that ICASA sent to Swiftnet during October 2007 would not form the basis of the conversion process, but instead the original license issued to Swiftnet in August 1995 would be used as the basis for license conversion. The transaction is still subject to ICASA approval. With regard to shareholder issues, ICASA indicated that there is currently no agreement within the industry as to acceptable BEE shareholding percentages for all licensees. ICASA indicated that the shareholding issue for the Swiftnet license would need to be in line with BEE values applicable to other similar licensees.

Mobile cellular telephone services

On September 30, 1992, a multiparty implementation agreement was concluded between Telkom, Vodacom, MTN, the Postmaster-General and the South African Government dealing with the licensing of Vodacom and MTN. Vodacom was issued with a mobile cellular telecommunications license in South Africa in 1993 for a validity period of 15 years. This mobile cellular telecommunications service license was confirmed and reissued in August 2002 pursuant to the Telecommunications Act. Vodacom's license is automatically renewable on the same terms and conditions should no notice of termination be received five years prior to the expiration of the initial license term. Vodacom's license was thus automatically renewed until May 30, 2024.

On July 1, 1997, Vodacom was deemed to be the holder of a license to provide mobile cellular telecommunications services in accordance with the Telecommunications Act, subject to the terms and conditions of the written mobile cellular telecommunications license issued by the Postmaster-General and the multiparty implementation agreement, and on August 19, 2002, Vodacom was issued a written mobile cellular telecommunications service license by the Minister of Communications and ICASA, pursuant to the Telecommunications Act, incorporating the terms and conditions of the original license and agreement, subject to certain legislatively mandated changes. Under this license, Vodacom is authorized to construct, maintain and use its public land mobile communications network for the provision of mobile cellular telecommunications services, and to interconnect with our public switched telecommunications network and the public land mobile communications networks of other licensed mobile cellular telecommunications service providers. An initial license fee of R100,000,000 was payable by Vodacom and an ongoing license fee of 5% of Vodacom's audited net operational income generated from the provision of the licensed services is payable by Vodacom quarterly in arrears.

Vodacom's mobile cellular telecommunications license may be revoked by ICASA, with the approval of the Minister of Communications, if Vodacom is placed in liquidation or under judicial management, or if there is a change in the direct or indirect ownership of 25% of the issued voting share capital of Vodacom in any one transfer or a change in the ownership of any of the issued voting share capital of Vodacom that results in a change to the composition of one-quarter of Vodacom's board of directors, in either case without ICASA's prior written approval, Vodacom takes steps to deregister itself or is deregistered, or Vodacom fails to pay the required license fee after due demand by ICASA.

Vodacom's use of its public land mobile communications network is authorized for the provision of a GSM based national mobile cellular telecommunications service and the connection of fixed and mobile terminal equipment using GSM cellular telephony technology. For the duration of this license, Vodacom's network must conform to the GSM specification standards and recommendations of the International Telecommunications Union as adopted by South Africa, as well as with the GSM specifications set by the European Technical Standards Institute, or ETSI.

Vodacom's mobile cellular telecommunications license requires Vodacom to provide facilities to enable a caller, free of charge, to communicate with an emergency organization as swiftly as practicable and sets out certain customer service standards with which Vodacom is required to comply. This license also requires Vodacom to use reasonable endeavors to ensure that certain information is kept confidential. Vodacom is obliged to provide directory services and to liaise with other licensees in that regard. Vodacom and its service providers are not entitled to show any undue preference to any person or class of person and Vodacom must develop, publish and enforce guidelines for use by its personnel when handling inquiries and complaints from customers to whom it supplies telecommunications facilities. These guidelines must be included in its contracts with service providers and must be published and available to customers. Vodacom's license prescribes that the guidelines must address the following areas of the provision of customer services:

- procedures for handling customer complaints;
- the time frame for handling customer complaints through such procedures;
- further recourse available to a customer who is dissatisfied with Vodacom's complaint handling procedures;
- procedures adopted by Vodacom to check the accuracy of a customer's telephone account;
- procedures to be adopted by Vodacom to assist customers in disaster situations; and
- availability to customers of quality of service information relating to Vodacom's network services.

Vodacom was also issued a radio frequency spectrum license simultaneously with its mobile cellular telecommunications license permitting it to use an assignment of 2x10 MHz in the 890.2 – 900 MHz paired with the 935.2 – 945.0 MHz radio frequency spectrum bands, for purposes of providing mobile cellular telecommunications services, valid for the duration of Vodacom's mobile telecommunications license of fifteen years. Vodacom was also granted a license, effective July 1, 1995, for the use of an additional assignment of 2x1 MHz of GSM900 MHz radio frequency spectrum band under its mobile cellular telecommunications license. Pursuant to the Telecommunications Act, the three mobile cellular licensees were given the right, upon application, to be granted licenses to use 1800 MHz frequency spectrum on payment of fees as determined by the Minister of Communications. Vodacom was awarded a permanent 1800 MHz license on October 29, 2004 comprising an assignments of 2x12 MHz and a 3G spectrum license on November 30, 2004, comprising an assignment of 2x10 MHz radio frequency spectrum. Vodacom received an additional 3G spectrum assignment of 2x5 MHz on February 15, 2007. The license fee for the 1800 MHz and 3G spectrum license is a R5 million access fee each per annum and R100,000 per MHz pair. On 7 September 2007 Vodacom was issued a radio frequency and station license in the C-Band for the operation of an international fixed link via satellite. Vodacom has to date been allocated a total of 46 million numbers, including the full 072, 076, 082 and 079 number ranges, along with part of the 071 number range. ICASA has started using the interleaving principle and allocated part of the 071 number ranges to MTN.

Vodacom was issued a license to provide value added network services on October 20, 1998. On May 20, 2005, ICASA published new regulations for value added network service providers. This set of regulations repeals the previous set of regulations under which Vodacom had to re-apply for its VANS license on February 27, 2004. In terms of the new regulations, Vodacom is deemed to have applied in accordance with the regulations. On August 26, 2005, ICASA re-issued Vodacom's value added network service license (VLS40/0034). Vodacom is obliged to keep and maintain statistics on complaints made to it by its customers. The statistics must be provided to ICASA at least once every six months and ICASA may, after consultation with Vodacom, publish these statistics.

Ownership restrictions

Pursuant to the ownership regulations issued under the Telecommunications Act, 103 of 1996, which have not been repealed by ICASA Telkom is a public switched telecommunications services licensee operating in a "concentrated market", which is a market where there are fewer than five licensees. Pursuant to these regulations, no person who holds a direct or indirect 5% ownership interest in Telkom, other than the Government of South Africa and passive institutional investors who do not participate in our management, is entitled to hold a 5% or greater ownership interest in any other licensed operator providing the same category of telecommunications services as Telkom in that concentrated market, such as the second national operator. The same prohibition applies in relation to a person holding such an ownership interest in both Vodacom and another mobile cellular telecommunications service licensee. In addition, licensees such as Telkom and Vodacom are required to maintain accurate and detailed records indicating the name, address, telephone number, e-mail address and other contact details of all persons holding a direct or indirect ownership interest of 5% or more in the licensee, the number of shares or other ownership interests owned of record by each such person, the identity of each such person entitled to vote, and must annually file such information with ICASA. ICASA is entitled, at the request of the licensee, to waive the licensee's obligations with respect to maintaining certain of the information where the licensee's issued share capital is listed on the JSE or any other internationally recognized securities exchange and the information is not kept in the ordinary course with respect to such listed issued share capital and is not otherwise required by such exchanges. Under the same regulations, licensees such as Telkom and Vodacom are required to obtain the prior written approval of ICASA, in an application that is signed by the licensee, the transferor and the transferee, for any transfer of a control interest in the licensee. A control interest in a licensee includes a direct or indirect:

- beneficial ownership of more than 25% of the issued share capital of that licensee;
- entitlement to vote a majority of the votes that may be cast at a general meeting of that licensee;
- ability to appoint or veto the appointment of a majority of the directors of that licensee;
- holding company of that licensee; or
- ability to direct or cause the direction of the management and policies of that licensee in a way similar to the foregoing.

The criterion to be used by ICASA in considering the application is whether the licensee will be able to satisfy its obligations under its licenses and comply with the Telecommunications Act, 103 of 1996, and the regulations thereunder after the transfer concerned. Any transfer in violation of these regulations is void.

Other regulatory issues

We are subject to the provisions of the Competition Act, 89 of 1998, which, together with the Electronic Communications Act regulates anti-competitive behavior in the communications industry in South Africa. Under the provision of these two Acts, we may not act anti-competitively or unfairly discriminate against any person. Activities within the communications and broadcasting sectors are

regulated primarily by ICASA, but with concurrent jurisdiction of the Competition Commission on competition-related matters. Although the concurrent jurisdiction of ICASA and the Competition Commission in the information communications technology sector is coordinated via a memorandum of agreement between the two bodies, there remain concerns around clear jurisdictional responsibilities on certain issues. ICASA is investigating three alleged complaints of anti-competitive behavior against Vodacom, a guilty finding of anti-competitive behavior by the Competition Tribunal could result in penalties of up to 10% of annual turnover and could disrupt our business and decrease our net profit.

South Africa is a member of the World Trade Organization and is a signatory to the Basic Agreement on Telecommunications. The commitments made by South Africa are embodied in the provisions of the Electronic Communications Act in respect of the liberalization of the South African telecommunications industry.

RICA is a South African law that regulates the authorization for and actual lawful interception of direct and indirect communications. The Act came into effect on September 30, 2005, with the exception of certain sections requiring the collection of customer details and identity verification prior to providing mobile cellular telecommunications services. The compliance date for these sections has not been determined and will come into effect by presidential proclamation. The amendment bill on RICA was discussed at the select committee on security and constitutional affairs, select committee, in the National Council of Provinces, after being passed by the national assembly. After discussions, the select committee decided to postpone deliberations on the bill, indefinitely. The effect of the decision of the select committee is that the RICA amendment bill is not likely to be finalized by parliament during the 2008 session, but will in probability be considered during the 2009 session of parliament. RICA obligates service providers to obtain and store customer details, including names, identity numbers, residential and business or postal addresses and requires verification of customers' details with reference to a customer's identity document. To date Telkom has not been able to complete the implementation of all of these requirements and Vodacom may not be able to implement these requirements within the time period in which it is ultimately required to implement them, which has not yet been determined. Furthermore, the implementation of RICA is expected to have significant cost implications resulting from the paper verification and storage requirements and negatively impact the ability of Telkom and Vodacom to register customers due to its burdensome registration process, which may not be practical and may require the disconnection of customers for whom such information is unavailable. As a result, Telkom's and Vodacom's business operations could be disrupted and their net profit could decline and they may be liable for penalties to the extent they are not able to comply with RICA's requirements. We are finalizing preparations to implement the process during the second half of the 2008 calendar year to satisfy requirements. Implementation will be phased to minimize costs while we are waiting for consideration of a request to amend section 39 of the Act. The request to amend originated from the envisaged changes to section 40 of the Act applicable to the mobile operators whereby the obligation to retain the paper copy was suspended.

In addition, commencing in June 2006, all licensees, including Telkom and Vodacom, were required to install equipment and implement procedures to allow lawful interception by law enforcement agencies in South Africa, including the interception of communications and the provisioning of call-related information, including billing information. Telkom was not able to completely comply with all of the requirements by June 2006 and was in consultation with the Office for Interception Centers and the Department of Communication to adopt a phased approach for compliance. Telkom subsequently achieved full compliance for all major technologies, including its public digital exchanges and Internet services, in the 2007 calendar year, although some implementation measures and implementation schedules remain subject to further official agreement with the responsible government agency. The directives for the implementation of these requirements for private networks have not yet been finalized. Systems to facilitate subscriber registration have been developed, tested and made available to the relevant customer touch points by Vodacom ahead

of the promulgation of the governing legislation. To the extent that we are unable to comply with all the requirements of RICA or are unable to substantially recover these costs of compliance, our business operations could be disrupted and our net profit could decline and we may be liable for penalties.

In certain South African judgments, we have been regarded as an organ of state. In addition, some legislation, notably the South African Promotion of Administrative Justice Act, 3 of 2000, have provisions that identify us as rendering a public service. As a result, some decisions that would otherwise be normal business decisions in other listed companies need to go through a consultative process with the Government before we can make them.

The Broad-Based Black Economic Empowerment Act, No. 53 of 2003, or the B-BBEE Act, aims at establishing a legislative framework for the promotion of black economic empowerment. Among other things, it empowers the Minister of Trade and Industry to issue codes of good practice and to publish sectorial transformation charters for that purpose. The codes of good practice aim to establish a balanced scorecard on empowerment, which deals with equity ownership, management and control of enterprises by black people, and employment, procurement, skills development, enterprise development and other developmental intervention aimed at the empowerment of black people. The Department of Trade and Industry has published all codes of good practice. The codes are mandatory on all organs of state, and will affect all enterprises that, directly or indirectly, conduct business with organs of state, in that their empowerment rating in terms of the codes, will determine their ability to conduct such business.

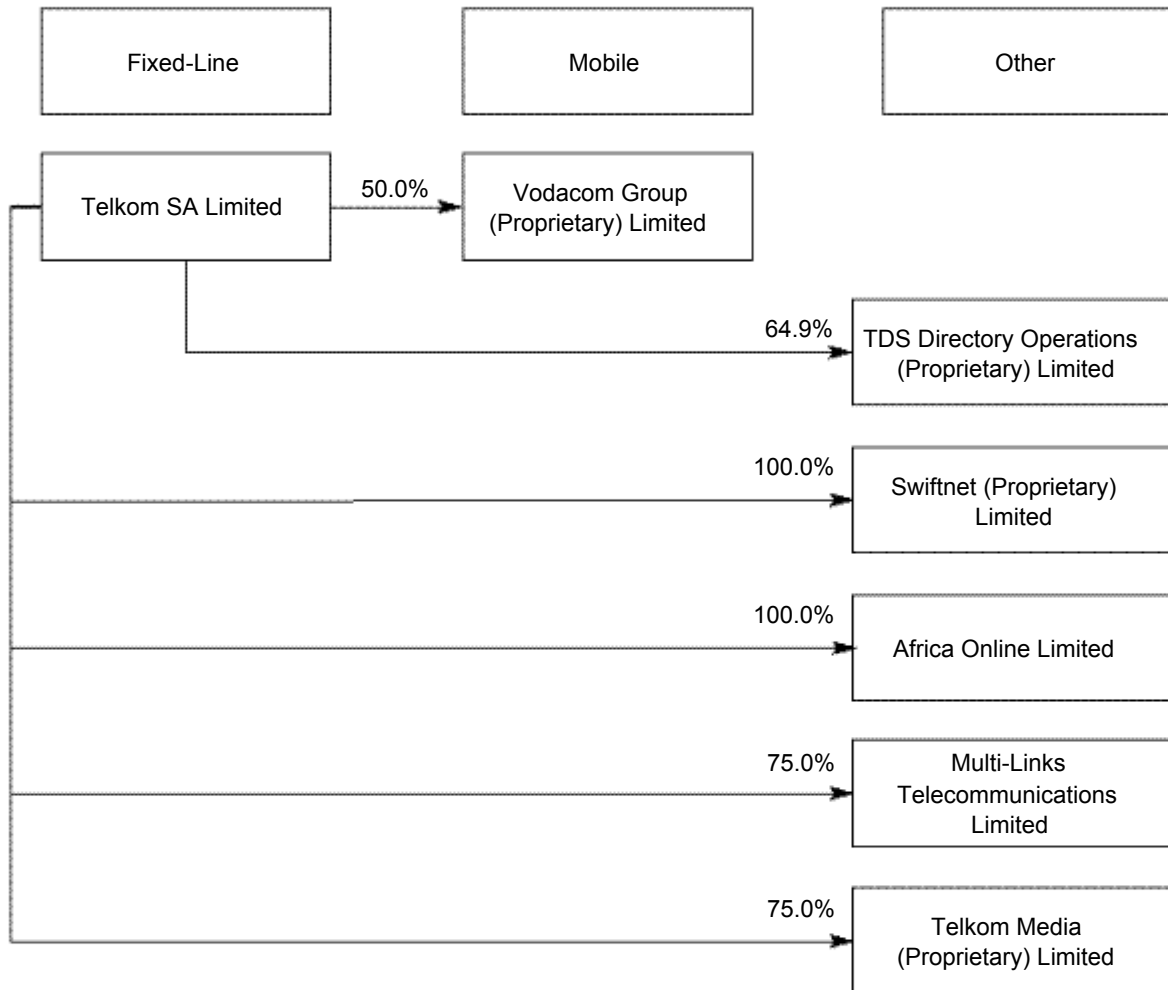
Sectorial transformation charters have a similar purpose to the codes of good practice, but are voluntarily applied by enterprises in a sector, and not mandatory. However, the B-BBEE Act makes provision for transformation charters to be gazetted, under certain circumstances, as a code of good practice, applicable to the enterprises in the relevant sector and those conducting business with them. The process to develop the Information Communication and Technology, or ICT, black economic empowerment charter commenced on September 16, 2003. The ICT Charter seeks to establish a framework for the promotion of transformation in the ICT sector through the establishment of a balanced scorecard on empowerment, which deals with the items addressed in the codes of good practice above. The scoring of the balanced scorecard will ultimately determine the black economic empowerment status of a company intending to engage Government when applying for a license in a regulated economic activity, entering into a public-private partnership, or engaging in any economic activity in South Africa. As such this process is of vital importance to Telkom and Vodacom. Telkom and Vodacom have been actively involved in the development of the BEE Charter for the ICT sector. A final draft of the ICT charter has received Cabinet approval, but will not be published as a voluntary charter and instead will be gazetted as a code. The final set of genetic codes of good practice has been gazetted in February 2007. The process of converting the ICT charter into codes of good practice for the ICT sector is almost complete and proposed ICT codes were submitted to the Minister of Communications in July 2007 for approval. Before the ICT codes are finally approved they will be gazetted for public comment for a period of two months.

The codes of good practice require business to make use of suppliers complying with the black economic empowerment requirements. We have started a process to ensure that we obtain a grading as a black economic empowered company sufficient for our business needs. If we are not able to meet the minimum requirements of the codes of good practice or the ICT charter, whichever may be applicable, some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfill such requirements.

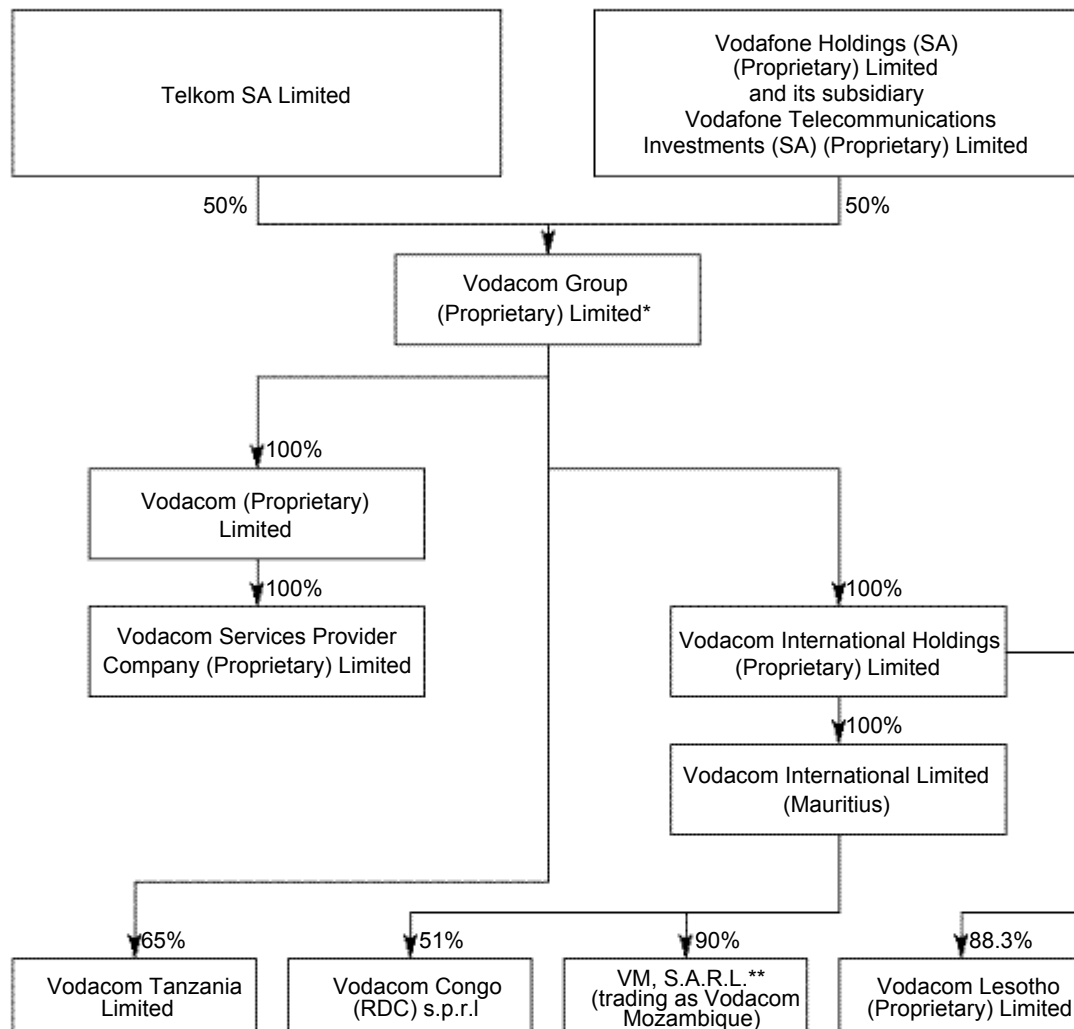
The Electronic Communications Act provides that ICASA must specify the percentage of equity ownership to be held in applicants for individual licenses by persons from historically disadvantaged groups. The percentage may not be less than 30% or such higher percentage as may be prescribed by ICASA.

ORGANIZATIONAL STRUCTURE

Our group operational structure is as follows:



Vodacom's group operational structure is as follows:



* The structure only includes major operating entities and holding companies.

** Effective April 1, 2007 Vodacom International Limited (Mauritius) sold an 8% equity interest to local investors, with 5% being purchased by Intelec Holdings Limitada and Empresa Moçambicana de Telecomunicações acquiring an additional 3%.

Our business consists of three segments:

- a fixed-line segment;
- a mobile segment; and
- an other segment.

Our fixed-line segment consists of our fixed-line business, which provides fixed-line access and data communications services through Telkom. Our mobile segment consists of our 50% interest in Vodacom, our joint venture. Our other segment consists of directory services through our 64.9% owned TDS Directory Operations subsidiary; wireless data services through our wholly owned Swiftnet subsidiary, Internet services in Africa through our wholly owned Africa Online subsidiary and fixed, mobile, data, long distance and international telecommunications services focused primarily on corporate clients in Nigeria through our 75% owned Multi-Links subsidiary.

PROPERTY, PLANT AND EQUIPMENT

Fixed-line

Our principal executive offices are located at Telkom Towers North, 152 Proes Street, Pretoria 0002, Republic of South Africa and comprised approximately 27,000 square meters of office space as of March 31, 2008. In addition, our information technology center comprised approximately 22,000 square meters and our network operations center comprised approximately 24,000 square meters as of March 31, 2008. Our executive offices are leased from the Telkom Retirement Fund under a lease agreement which will expire on January 31, 2019. The total area of all our properties as of March 31, 2008 comprised approximately 2.5 million square meters consisting of approximately 1.5 million square meters of owned, approximately 640,000 square meters of leased and approximately 403,000 square meters of other type properties. As of March 31, 2008, we leased approximately 222,000 square meters of office space pursuant to lease agreements. Except as stated to the contrary below, our leases expire at various times ranging from one month to five years.

Our properties primarily consisted of 2,459 electronic telephone exchanges, 49 microwave transmission towers, three satellite stations, 137 Telkom Direct shops, 263 customer service centers, three information technology centers and one network management center as of March 31, 2008.

Details of the principal immovable property leased and owned by our fixed-line business as of March 31, 2008 are as follows:

<u>Type of property</u>	<u>Leased or owned</u>	<u>Lessor</u>	<u>Lessee</u>	<u>Location</u>	<u>Current monthly rental</u>	<u>Expiration date</u>
Head office	Leased	Telkom Retirement Fund	Telkom	152 Proes Street, Pretoria, South Africa	R6,051,657	Jan 31, 2019
Office	Leased	Bridgeport/Lanor Joint Venture	Telkom	195 Nelson Mandela Drive, Bloemfontein, South Africa	R932,164	Jun 30, 2009
Information technology center	Leased	Telkom Retirement Fund	Telkom	21 Teddington Street, Tygerberg, Bellville, South Africa	R1,303,862	Jan 31, 2019
Equipment related	Leased	Telkom Retirement Fund	Telkom	178 Vermeulen Street, Pretoria, South Africa	R524,607	Jan 31, 2019
Network operations Center	Owned	n/a	n/a	55 Oak Avenue, Highveld, Centurion, South Africa	n/a	n/a
Information Technology, Technopark	Owned	n/a	n/a	91 Oak Avenue Highveld, Centurion, South Africa	n/a	n/a
National Business Solutions Center	Owned	n/a	n/a	61 Oak Avenue, Highveld, Centurion, South Africa	n/a	n/a
Hillbrow Microwave Tower	Owned	n/a	n/a	Claim Street, Hillbrow, Johannesburg, South Africa	n/a	n/a
Pretoria Microwave Tower	Owned	n/a	n/a	Devenish Street, Groenkloof, Pretoria, South Africa	n/a	n/a
Hartebeesthoek satellite station	Owned	n/a	n/a	Old Krugersdorp Road, On The Farm Hartebeesthoek, South Africa	n/a	n/a
Electronic telephone exchange	Owned	n/a	n/a	Sivewright Street, New Doornfontein, Johannesburg, South Africa	n/a	n/a

Our leased and owned property facilities are managed pursuant to a management agreement with TFMC, a company incorporated in South Africa, of Meersig Building, 48 West Avenue, Centurion. The consideration paid to TFMC for management services in the year ended March 31, 2008 was R160 million. The management agreement terminates on March 31, 2011.

Mobile

Vodacom's principal executive offices are located at Vodacom Corporate Park, 082 Vodacom Boulevard, Vodavalley, Midrand, 1685, Republic of South Africa. Vodacom's South African properties primarily consisted of 7,300 base transceiver stations, 379 base station controllers, 53 mobile switching centers, including VLRs and gateways, a network management center and customer service centers as of March 31, 2008. The number of mobile switching centers have decreased in the 2007 financial year due to the implementation of new equipment with increased capacity per unit when compared to the replaced equipment. The total area of all of Vodacom's properties, excluding its network and retail outlets, was approximately 209,073 square meters as of March 31, 2008, consisting of approximately 173,446 square meters of owned properties and approximately 35,627 square meters of leased properties. Vodacom's leases expire at various times on terms up to 15 years.

Vodacom leases transmission lines from Telkom under a lease agreement for the provision of its backbone infrastructure.

Item 5. Operating and financial review and prospects

OPERATING RESULTS

You should read the following discussion together with the consolidated financial statements of the Telkom Group and Vodacom and the notes thereto included elsewhere in this annual report. The Telkom Group and Vodacom have prepared their consolidated financial statements in accordance with IFRS, which differs in certain respects from US GAAP.

Overview of our business

For an overview of our business see Item 4. “Information on the company – Business overview – Business summary.”

Principal factors that affect our results of operations

Liberalization of the South African telecommunications market and increasing competition

Our operating results are significantly impacted by increasing competition in the South African communications market. As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty through improved services and products and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate pressure on overall average tariffs, a reduction in our market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline. Increased future competition may also result in a reduction in Vodacom’s overall average tariffs, loss of market share and an increase in its customer acquisition and retention costs. At the same time, we expect competition to stimulate overall market demand for communications services, which could cause Vodacom’s growth rates, revenue and net profit to decline. See Item 3. “Key Information – Risk Factors – Risks Related to our Business – Increased competition in the South African telecommunications market may result in a reduction in overall average tariffs, market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline and our churn rates to increase,” Item 4. “Information on the company – Fixed-line communications – Competition” and Item 4. “Information on the Company – Regulation and License Requirements.”

South African fixed-line communications market

While South Africa features a highly developed financial and legal infrastructure at the core of its economy, it also suffers from high levels of unemployment and income disparity. With respect to the economically disadvantaged communities of the population, communications providers must compete with other basic necessities for customers’ limited resources. In a number of areas of the country and for particular communities, mobile services are the preferred alternative to fixed-line services, primarily due to mobility. Although the fixed-line penetration rate in South Africa was only 9.5% and 9.8% as of March 31, 2008 and March 31, 2007, respectively, due to the diverse rural geography and demographic factors in South Africa, we do not expect South Africa’s fixed-line penetration rates to increase in the near term. In the 2008 and 2007 financial years, our total fixed access lines decreased primarily due to a decrease in the number of residential PSTN lines, partially offset by an increase in ISDN channels and business postpaid PSTN lines. Residential postpaid PSTN lines were adversely impacted by customer migration to mobile and higher bandwidth products such as ADSL and lower connections, while the decrease in prepaid PSTN lines was primarily as a result of customer migration to mobile services and our residential postpaid PSTN services. Similarly, traffic declined in both the 2008 and 2007 financial years, being adversely affected by the increasing substitution of calls placed

using mobile services rather than our fixed-line services and dial up internet traffic being substituted by our ADSL service, as well as the decrease in the number of residential PSTN lines and increased competition in our payphone business. During the same period, ISDN channels and ADSL services have increased, driven by increased demand for higher bandwidth and functionality. In light of these market conditions, we will seek to maintain existing customers in the face of increasing competition and increase sales of data products while utilizing existing capacity, largely through increased sales of our bundled products.

South African mobile communications market

South Africa has experienced significant growth in the number of mobile users since GSM mobile services were launched in the country in 1994. The penetration rate for mobile users increased from an estimated 2.4% at March 31, 1997 to an estimated 94% at March 31, 2008. As a result, Vodacom's South African revenue increased 19.1% and 15.6% in the 2007 and 2008 financial years, respectively. While we believe the mobile penetration rate will continue to increase, as the market is currently maturing and has a high cell phone penetration rate, we do not expect that it will continue to grow at the same high rates that it has experienced in the recent past. Consequently, Vodacom is seeking to maintain its leadership position in the South African market through the introduction of new, innovative products to ensure it gains new customers, retains existing customers and differentiates itself from its competitors. Vodacom will continue to invest in its business intelligence to enhance customer segmentation to better target products and converged communications. Vodacom intends to invest further in expanding its network and improving network quality and customer service levels to ensure it maintains its leadership position.

Vodacom is seeking to expand its data offering through services such as multimedia messaging services, information and banking services, location based services and advertising on cell phones.

To achieve further company growth and revenue, Vodacom's strategy is to become a leading provider of converged communications and related services, initially focusing on the corporate and small, medium and micro enterprises markets. This initiative is driven by Vodacom Business, which was officially launched in February 2008.

Vodacom Business offers the market a full set of converged technology and communications services.

Vodacom Business is developing a service portfolio that includes next-generation internet protocol voice services, managed networks and infrastructure services, access services, hosting and applications.

Underpinning Vodacom's growth in data and converged solutions is a serious involvement in international data transmission. Vodacom believes it is critical for Vodacom to play a significant role and the company is active in a number of international transmission incentives, such as the Seacom, Eassy Cable and Infraco developments. Vodacom's previous focus of customer acquisition and selective growth in other African countries still remain focus areas.

In furtherance of these strategies, in the 2005 financial year, Vodacom signed an alliance with its shareholder, Vodafone, which gives Vodacom access to Vodafone's branded products and services, global research and development and access to Vodafone's marketing and buying powers. In addition, Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom also launched Vodafone Mobile Connect Cards, 3G/GPRS/HSDPA datacards providing fast, secure access to corporate networks from computers, Vodafone live!, with global and local content, picture and video messaging and downloads, Mobile TV and BlackBerry®. In addition, during the 2007 financial year, Vodacom launched 3G with HSDPA, giving its customers access to global high speed broadband communications, and in May 2008, Vodacom launched HSUPA, an enhancement of its HSDPA.

A large part of the growth in mobile services was due to the success of prepaid services. Approximately 85.3% of Vodacom's South African mobile customers were prepaid customers at March 31, 2008 and 93.4% of all gross connections were prepaid customers in the 2008 financial year. During the 2008 and 2007 financial years the growth in contract customers in South Africa exceeded the growth in prepaid customers as a result of the migration of the South African middle class from prepaid to contract services. The increasing number of prepaid users, who tend to have lower average usage, together with the lower overall usage as the lower end of the market continues to be penetrated have historically resulted in decreasing overall average revenue per customer. The shift in the customer mix to higher spending contract customers, which represented 14.3% of total South African customers as of March 31, 2008 compared to 13.1% as of March 31, 2007, enabled total South African ARPU to remain stable at R125 per month in the 2007 and 2008 financial years after decreasing from R139 per month in the 2006 financial year. South African contract ARPU decreased to R486 per month in the 2008 financial year from R517 per month in the 2007 financial year and R572 per month in the 2006 financial year. South African prepaid ARPU decreased to R62 per month in the 2008 financial year from R63 per month in the 2007 financial year and R69 per month in the 2006 financial year. In the 2008, 2007 and 2006 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts.

Tariffs

Our operating results are significantly impacted by tariff levels. See Item 3. "Key Information – Risk Factors – Risks Related to Regulatory and Legal Matters – Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our revenue and net profit. Vodacom's revenue and net profit could also decline if wholesale price controls are imposed on it" and Item 4. "Information on the Company – Business Overview – Fixed-line Communications – Fees and Tariffs – Tariff Rebalancing".

Vodacom's and Telkom's increasing interconnection payments

Vodacom and Telkom have experienced a significant change in the traffic mix as mobile customers have increased relative to fixed-line customers. This resulted in an increasing percentage of calls from Vodacom's network terminating on other mobile networks rather than our fixed-line network. Vodacom's interconnection payments have increased and its margins have decreased because the cost of terminating calls on other mobile networks is higher than the cost of terminating calls on Telkom's fixed-line network. As a result, Vodacom's South African net interconnect revenue has been declining in recent years. Similarly, Telkom has incurred increased payments to other operators as a result of the growth in interconnection traffic for fixed-line calls terminating on mobile networks. If mobile customers continue to increase and there is little or no growth in fixed-line customers, this trend could continue and Vodacom's and Telkom's margins and net profit could decline.

Acquisitions and dispositions

The revenue, expenses, net profit, cash flows and capital expenditures of Telkom and Vodacom have significantly been impacted by their acquisitions and dispositions, particularly Multi-Links and Vodacom's service provider acquisitions in recent years. See Item 4. "Information on the company – Recent Developments – Acquisitions and Investments" and "– Vodacom's acquisitions and dispositions."

Volatility of the Rand

The value of the Rand as measured against the US Dollar has historically fluctuated significantly. The value of the Rand as measured against the Dollar has increased from R11.38 per U.S.\$1.00 as of March 31, 2002 to R6.15 per U.S.\$1.00 as of March 31, 2006. The value of the Rand as measured against the Dollar was R8.14 per U.S.\$1.00 as of March 31, 2008. Telkom's policy is to hedge its foreign denominated debt and operating and capital expenditures. Vodacom's policy is to hedge its foreign denominated commitments for operating and capital expenditures for its South African operations. Currency exchange hedges are not always available in other African countries or are not available on commercially acceptable terms. Decreases in the value of the Rand as measured against other currencies could increase the future cost in Rand terms of future foreign denominated debt, future foreign denominated financing costs and future foreign denominated operating and capital expenditures. Fair value adjustments on financial instruments are recorded in the Telkom Group's consolidated financial statements in the period they occur pursuant to IAS39 – Recognition and Measurement of Financial Instruments. The effect of the application of this standard increased our consolidated profit before tax by R123 million in the 2006 financial year, R202 million in the 2007 financial year and R82 million in the 2008 financial year. Future exchange rate and financial market volatility may continue to materially impact our future results due to the large volume of foreign exchange contracts entered into by us to cover our foreign currency denominated debt, financing and operating costs and capital expenditures.

Theft, vandalism, network fraud, payphone fraud and non-licensed operators

We have experienced significant cable theft, theft of solar panels and wireless communications equipment, vandalism of payphones, network fraud, such as non-licensed calls, and payphone fraud in our fixed-line business. Theft and vandalism have caused our fixed-line fault rates to increase and the repair times on our network and the network downtime associated with such faults and network fraud and payphone fraud have resulted in lost operating revenue and significant costs. Theft of cable increased significantly in the 2008 and 2007 financial years due to the increase in the price of copper. We have also lost operating revenue to non-licensed operators providing telecommunications services in South Africa. If we are unable to control theft, vandalism, network fraud and payphone fraud, or if we continue to lose operating revenue to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

Capital expenditures

Historically, our fixed-line capital expenditures were aimed primarily at modernizing our network and rolling out lines in order to comply with our license obligations and prepare for competition. As we seek to implement our current strategy in the face of a significantly more competitive environment due to the entry of Neotel and the further liberalization of the South African communications market as a result of the enactment of the Electronic Communications Act, we have shifted our capital expenditure focus as we seek to evolve our fixed-line network to an internet protocol-based next generation network. As a result, we expect that our fixed-line capital expenditures in the 2009 financial year will be spent primarily in the following areas:

- Maintaining current service levels and growth;
- Improvements to current networks;
- Enhancing customer centricity;
- Evolving to a next generation network;
- Regulatory and legal to comply with regulatory obligations;
- Wireless access network deployment in high margin areas and for corporate customers; and
- Expansion of international networks through our subsidiaries.

Our consolidated capital expenditures in property, plant and equipment for the 2009 financial year is budgeted to be approximately R15.2 billion, of which approximately R7.0 billion is budgeted to be spent in our fixed-line segment and approximately R5.2 billion is budgeted to be spent in our mobile segment, which is our 50% share of Vodacom's budgeted capital expenditure of approximately R10.4 billion, and approximately R3.0 billion is budgeted to be spent in our other segment. Our capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors. See "Liquidity and Capital Resources – Capital Expenditures and Investments."

Employee related expenses

Employee related expenses are a significant component of our total fixed-line operating expenses. Fixed-line employee expenses increased 4.2% from R7.1 billion in the 2007 financial year to R7.4 billion in the 2008 financial year primarily due to increased salaries and wages and related benefits as a result of annual average salary increases of 7.0%, a 1.1% increase in the number of employees in our fixed-line business in the 2008 financial year, and increased payments to part time staff and contractors to meet customer centricity objectives and the deployment of next generation network objectives. The number of Telkom employees declined by approximately 31,236 positions from March 31, 1997 through March 31, 2006, increased by 289 positions in the year ended March 31, 2007 and decreased by 985 positions in the 2008 financial year. At March 31, 2008, we had 24,879 Telkom employees. Telkom is a party to a collective agreement on substantive matters covering the terms and conditions of employment of its fixed-line unionized employees and other non-management employees in Telkom's bargaining unit with ATU and CWU for the period from April 1, 2006 to March 31, 2009. The long term substantive agreement provides for the re-opening of negotiations in the event the consumer price index varies from the April 2006 level of 3.7% by more than 3%. Due to inflation increasing beyond this percentage, Telkom re-opened the negotiations in December 2007 and thus far, we have not managed to reach a settlement. Given the rapidly deteriorating economic conditions as evidenced by an increase in the consumer price index from 7.9% in December 2007 to 11.7% in May 2008, the various Trade Union Federations especially COSATU have requested a double-digit increase. We have received a notice from CWU advising Telkom of its intention to embark on some unspecified industrial action.

Telkom had placed a moratorium on employee reductions until March 31, 2007. Telkom recently announced that it was launching a capability management process to identify partners for network operations, information technology management and Telkom Direct shops pursuant to which certain elements will be outsourced to professional service providers. Telkom has issued a closed request for proposals for professional services in this regard.

Telkom is engaging with organized labor in line with transparency and labor regulations in connection with the implementation of its capability management program. If we are unable to implement workforce reductions as necessary or outsourcing as planned, particularly as a result of increased competition, or experience significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining or compliance with labor laws, our business operations could be disrupted and our net profit could be reduced.

Results of operations

Our operating structure comprises three segments, fixed-line, mobile and other. Our fixed-line segment provides fixed-line voice and data communications services through Telkom. Our mobile segment provides mobile services through its 50% joint interest in Vodacom. Our other operations segment provides directory services through our TDS Directory Operations Group, fixed mobile, data and other international communications services in Nigeria, through our newly acquired Multi-Links subsidiary, internet services outside South Africa, through our Africa Online subsidiary, and wireless data services, through our Swiftnet subsidiary, and includes Telkom Media. TDS Directory Operations and Swiftnet were previously included in our fixed-line segment.

We proportionately consolidate Vodacom's results into the Telkom Group's consolidated financial statements. This means that we include 50% of Vodacom's results in each of the line items in the Telkom Group's consolidated financial statements and in the year-to-year discussion below. We fully consolidate our TDS Directory Operations, Multi-Links, Africa Online, Swiftnet and Telkom Media subsidiaries in the Telkom Group's consolidated financial statements.

**Year ended March 31, 2008 compared to year ended March 31, 2007
and year ended March 31, 2006**

Consolidated results

The following table shows information related to our operating revenue, operating expenses, operating profit, profit for the year, profit margin, EBITDA and EBITDA margin for the periods indicated.

Telkom Group's segmental results								
Year ended March 31,								
	2006		2007		2008		2007/2006	2008/2007
	ZAR	%	ZAR	%	ZAR	%	% change	% change
(in millions, except percentages)								
Operating revenue	47,625	100.0	51,619	100.0	56,285	100.0	8.4	9.0
Fixed-line	31,832	66.8	32,345	62.7	32,572	57.9	1.6	0.7
Mobile	17,021	35.7	20,573	39.8	24,089	42.8	20.9	17.1
Other	952	2.0	979	1.9	1,993	3.5	2.8	103.6
Intercompany eliminations . .	(2,180)	(4.5)	(2,278)	(4.4)	(2,369)	(4.2)	4.5	4.0
Other income ⁽¹⁾	480	100.0	384	100.0	534	100.0	(20.0)	39.1
Fixed-line	465	96.9	334	87.0	497	93.1	(28.2)	48.8
Mobile	50	10.4	42	10.9	56	10.5	(16.0)	33.3
Other	10	2.1	54	14.1	67	12.5	440.0	24.1
Intercompany eliminations . .	(45)	(9.4)	(46)	(12.0)	(86)	(16.1)	2.2	87.0
Operating expenses	33,428	100.0	37,533	100.0	42,337	100.0	12.3	12.8
Fixed-line	22,454	67.2	24,083	64.1	24,962	59.0	7.3	3.6
Mobile	12,635	37.8	15,185	40.5	17,898	42.3	20.2	17.9
Other	564	1.7	589	1.6	1,830	4.3	4.4	210.7
Intercompany eliminations . .	(2,225)	(6.7)	(2,324)	(6.2)	(2,353)	(5.6)	4.4	1.2
Operating profit ⁽²⁾	14,677	100.0	14,470	100.0	14,482	100.0	(1.4)	0.1
Fixed-line	9,843	67.1	8,596	59.4	8,107	56.0	(12.7)	(5.7)
Mobile	4,436	30.2	5,430	37.5	6,247	43.1	22.4	15.0
Other	398	2.7	444	3.1	230	1.6	11.6	(48.2)
Intercompany eliminations . .	—	—	—	—	(102)	(0.7)	—	—
Operating profit margin (%) .	30.8		28.0		25.7		(9.1)	(8.2)
Fixed-line	30.9		26.6		24.9		(13.9)	(6.4)
Mobile	26.1		26.4		25.9		1.1	(1.9)
Other	41.8		45.4		11.5		8.6	(74.7)
Profit for the year attributable to equity holders of Telkom .	9,189	100.0	8,646	100.0	7,975	100.0	(5.9)	(7.8)
Profit margin (%)	19.3		16.7		14.2		(13.5)	(15.0)
EBITDA ⁽²⁾⁽³⁾	20,553	100.0	19,785	100.0	20,612	100.0	(3.7)	4.2
Fixed-line	14,206	69.1	12,178	61.6	11,839	57.4	(14.3)	(2.8)
Mobile	5,908	28.8	7,123	36.0	8,217	39.9	20.6	15.4
Other	439	2.1	484	2.4	373	1.8	10.3	(22.9)
Intercompany eliminations . .	—	—	—	—	183	0.9	n/a	n/a
EBITDA margin (%)	43.2		38.3		36.6		(11.3)	(4.4)

Notes:

- (1) Other income includes profit and losses on disposal of investments, property, plant and equipment and intangible assets.
- (2) Total operating profit and EBITDA and mobile operating profit and EBITDA include our 50% share of a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets in Mozambique and an impairment loss of R30 million and R23 million in the 2008 and 2007 financial years respectively, in respect of the assets in Mozambique due to a decrease in the fair value of the assets.
- (3) EBITDA represents profit for the year, which includes profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortization, impairments and write-offs. See footnote 9 in Item 3. "Key Information – Selected Historical Consolidated Financial and Other Data of the Telkom Group" and footnote 6 in Item 3. "Key Information – Selected Historical Consolidated Financial and Other Data of Vodacom Group" for a reconciliation of EBITDA of the Telkom Group and Vodacom, respectively, to net profit. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant tax regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. In addition, the calculation of EBITDA for the maintenance of our covenants contained in our TL20 bond is based on accounting policies in use, consistently applied, at the time the indebtedness was incurred. As a result, EBITDA for purposes of those covenants is not calculated in the same manner as it is calculated in the above table.

EBITDA can be reconciled to operating profit as follows:

	Year ended March 31, _		
	2006	2007	2008
	ZAR	ZAR	ZAR
	(in millions)		
Fixed-line			
EBITDA	14,206	12,178	11,839
Depreciation, amortization, impairments and write-offs	<u>(4,363)</u>	<u>(3,582)</u>	<u>(3,732)</u>
Operating profit	9,843	8,596	8,107
Mobile			
EBITDA	5,908	7,123	8,217
Depreciation, amortization and impairments	<u>(1,472)</u>	<u>(1,693)</u>	<u>(1,970)</u>
Operating profit	4,436	5,430	6,247
Other			
EBITDA	439	484	373
Depreciation, amortization, impairments and write-offs	<u>(41)</u>	<u>(40)</u>	<u>(143)</u>
Operating profit	398	444	230

Operating revenue

Operating revenue increased in the years ended March 31, 2008 and 2007 due to increased operating revenue in our mobile other and fixed-line segments. Vodacom's operating revenue increased in the 2008 financial year primarily due to increased airtime, data, interconnection and equipment sales revenue as a result of strong customer growth. Vodacom's operating revenue increased in the 2007 financial year primarily due to increased data, interconnection and equipment sales revenue as a result of continued customer growth. The increase in revenue in our other

segment in the 2008 financial year was primarily due to the inclusion in the 2008 fiscal year of revenue generated by our newly acquired subsidiaries, Multi-Links and Africa Online. Fixed-line operating revenue remained flat with a marginal increase of 0.7% in the 2008 financial year primarily due to continued growth in data services, interconnection revenues and higher revenue from subscription based calling plans, partially offset by a decrease in local and long distance traffic. The increase in fixed-line operating revenue in the 2007 financial year was primarily due to continued growth in data revenue and higher subscriptions and connections revenue partially offset by lower average traffic tariffs, lower local and long distance traffic and lower interconnection revenue. These additional revenue streams were further supported by the continued growth in advertising revenue from our subsidiary, TDS Directory Operations, offset in part by a slight reduction in wireless data services revenue from our subsidiary, Swiftnet due to increased competition in the wireless data environment. Revenue from directory services increased in the years ended March 31, 2007 and 2008 primarily due to annual tariff increases and increased marketing and online efforts, resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers.

Other income

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets. The increase in fixed-line other income in the 2008 financial year was primarily due to the disposal of more properties at a higher value during the 2008 fiscal year. The decrease in fixed-line other income in the 2007 financial year was primarily due to lower sales of assets and properties as well as a decrease in profit on disposal of investments, which resulted from the reclassification of assets held by the Cell captive to an annuity policy that qualified as a plan asset, effective June 1, 2006. The profits and losses that would have previously been included in other income are now treated as movements in the plan assets funding the post retirement medical aid obligation.

Operating expenses

Operating expenses increased in the years ended March 31, 2008 and 2007 as a result of increased operating expenses in our mobile, other and fixed-line segments. The increase in mobile operating expenses in the 2008 financial year was primarily due to inflationary factors and growth in the business, which led to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount as well as increased depreciation, amortization and impairment. The increase in mobile operating expenses in the 2007 financial year was primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and other African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortization and impairment, higher employee costs as a result of increased headcount, average 7.5% annual salary increases, an increase in the provision for bonus schemes and an increase in the provision for long term incentives for executives and increased operating leases.

The increase in the other segment's operating expenses in the 2008 financial year was primarily due to the inclusion of operating expenses relating to our newly acquired subsidiaries, Multi-Links and Africa Online, and the creation of Telkom Media, all of which impacted all expense categories. Increases in other operating expenses in the 2008 financial year were primarily driven by significant increases in payments to other operators, employee expenses, depreciation, amortization and impairments, operating leases and services rendered.

The increase in fixed-line operating expenses in the 2008 financial year was primarily due to increased payments to other operators, higher employee expenses and services rendered, partially offset by lower leases and selling, general and administrative expenses. Payments to other operators increased primarily due to increased calls from our fixed-line network to mobile and international operators as result of higher call volumes from our fixed-line network to the mobile and international networks. Employee expenses increased due to higher salaries and wages as a result of average annual salary increases and higher share compensation expenses, partially offset by a reduced provision for team award and a reduction in the number of employees. Services rendered increased primarily due to increased property management costs mainly related to increased electricity usage, electricity rates and taxes, payments to consultants to explore local and international investment opportunities, higher security costs due to increases in contract prices and maintenance and monitoring of the cable alarm system and legal fees related to Telcordia. Operating leases decreased in the year ended March 31, 2008 primarily due to a discount received on the extension of our vehicle lease and a reduction in the number of vehicles from 9,694 at March 31, 2007 to 8,792 at March 31, 2008. Selling, general and administrative expenses decreased primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, and lower marketing expense, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year – increased materials and maintenance expenses and higher bad debts. Depreciation, amortization, impairments and write-offs increased in the year ended March 31, 2008 primarily as a result of higher amortization of intangible assets and increased depreciation due to the ongoing investment in telecommunications network equipment and data processing equipment, partially offset by lower asset write-offs.

The increase in fixed-line operating expenses in the 2007 financial year was primarily attributable to increased selling, general and administrative expenses, employee expenses, payments to other operators, and services rendered, partially offset by lower depreciation, amortization, impairments and write-offs as a result of an increase in the useful lives of certain assets. Selling, general and administrative expenses increased primarily as a result of the provision raised for possible liabilities in the Telcordia dispute, higher materials and maintenance expenses, increased marketing and sponsorships, and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses, partially offset by a provision for VAT that was reversed due to a revenue ruling from SARS. Employee expenses increased due to higher salaries and wages as a result of average annual salary increases of 7.0% and related benefits, an increase in the number of employees and increased payments to part time employees and contractors. Payments to other network operators increased primarily due to higher call volumes from our fixed-line network to the mobile networks and higher payments to international network operators as a result of higher international outgoing volumes and a weaker exchange rate. Services rendered increase in the year ended March 31, 2007 primarily due to increased payments to consultants to explore local and international investment opportunities, customer centricity and higher security and property management costs at TFCM.

Operating profit

Operating profit increased in the 2008 financial year due to increased mobile operating profit as a result of higher operating revenue, partially offset by lower fixed-line operating profit and operating profit from our other segment. Operating profit decreased in the 2007 financial year due to decreased fixed-line operating profit as a result of higher operating expenditure, partially offset by increased mobile operating profit. As a result, the fixed-line operating profit margin decreased from 30.9% in the 2006 financial year to 26.6% in the 2007 financial year and decreased to 24.9% in the 2008 financial year and the mobile operating profit margin increased from 26.1% in the 2006 financial year to 26.4% in the 2007 financial year and decreased to 25.9% in the 2008 financial year. The operating margin for our other segment increased from 41.8% in the 2006 financial year to 45.4% in the 2007 financial year and decreased to 11.5% in the 2008 financial year.

Investment income

Investment income consists of interest received on short term investments and bank accounts and income received from our investments. Investment income decreased 16.2% to R197 million in the 2008 financial year and decreased 40.8% to R235 million in the 2007 financial year from R397 million in the 2006 financial year. The decrease in the 2008 financial year was primarily due to lower interest received from fixed deposits and repurchase agreements mainly due to lower cash balances. The decrease in the 2007 financial year was primarily due to lower interest received as a result of lower cash balances available for short term investments and increased taxation payments.

Finance charges

Finance charges include interest paid on local and foreign borrowings, amortized discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses.

The following table sets forth information related to our finance charges for the periods indicated.

Finance charges					
	Year ended March 31,				
	2006	2007	2008	2007/2006	2008/2007
	ZAR	ZAR	ZAR	% change	% change
	(in millions, except percentages)				
Interest expense	1,346	1,327	1,885	(1.4)	42.1
Local loans	1,506	1,488	2,041	(1.2)	37.2
Foreign loans	9	—	19	—	n/a
Finance charges capitalized	(169)	(161)	(175)	(4.7)	8.7
Foreign exchange losses and fair value movements	(123)	(202)	(82)	(64.2)	59.4
Fair value (adjustments) on derivative instruments ..	(170)	(448)	(196)	(163.5)	56.3
Foreign exchange losses	47	246	114	423.4	(53.7)
Total finance charges	1,223	1,125	1,803	(8.0)	60.3

During the year ended March 31, 2008, finance charges increased primarily due to a higher interest expense resulting from higher debt levels in the fixed-line, mobile and other segments, and foreign exchange losses and fair value movements decreased primarily due to currency movements and fair value losses on the put option we have in place relating to Multi-Links and Vodacom Congo. This was partially offset by fair value adjustments as a result of the significant weakness of the Rand against international currencies. During the year ended March 31, 2007, finance charges decreased due to a slightly reduced interest expense resulting from lower interest bearing debt levels, and an increase in the net fair value and exchange gains due to currency movements and fair value adjustments of our consolidated special purpose entity used to fund Telkom's post retirement medical benefit obligation.

Taxation

Our consolidated tax expense decreased 0.6% to R4,704 million in the year ended March 31, 2008 and increased 4.6% to R4,731 million in the year ended March 31, 2007 from R4,523 million in the year ended March 31, 2006. The decrease in the 2008 financial year was primarily due to higher non-deductible expenses relating mostly to the impairment of Telkom Media and Africa Online assets, the increase in STC tax credits utilized in respect of the repurchase of Telkom share, the utilization of the Multi-Links assessed losses and the impact of the tax rate change on deferred taxation from 29%

to 28% with effect from April 1, 2008. The increase in the 2007 financial year was mainly due to the higher capital gains tax liability created and higher non-deductible expenses in Telkom company and Vodacom.

The following table sets forth information related to our effective tax rate for the Telkom Group, Telkom Company and Vodacom for the periods indicated:

	Year ended March 31,				
	2006	2007	2008	2007/2006	2008/2007
	%	%	%	% change	% change
Effective tax rate					
Telkom Group	32.7	34.9	36.5	6.7	4.6
Telkom Company	25.0	24.2	24.6	(3.2)	1.7
Vodacom	37.5	36.9	34.1	(1.6)	(7.6)

The increase in the Telkom Group effective tax rate in the 2008 financial year was mainly due to higher non-deductible expenses relating mostly to the impairment of Telkom Media and Africa Online assets, the increase in STC tax credits utilized in respect of the repurchases of Telkom shares and the impact of the tax rate change on deferred taxation from 29% to 28% with effect from April 1, 2008.

The increase in the Telkom Group effective tax rate in the 2007 financial year was mainly due to higher capital gains tax and higher non-deductible expenses in Telkom company and Vodacom.

The higher effective tax rate for Telkom Company in the year ended March 31, 2008 was primarily due to higher non-deductible expenses relating to the R217 million impairment of the Telkom Media loan and an increase of R198 million in secondary tax on companies, partially offset by higher exempt income resulting from dividends received from Vodacom and other subsidiaries. The lower effective tax rate for Telkom Company in the year ended March 31, 2007 was primarily due to higher exempt income resulting mainly from dividends received primarily from Vodacom partially offset by higher non-deductible expenses relating to the Telcordia dispute. Vodacom's effective tax rate decreased in the 2008 financial year primarily due to the decrease in the rate of secondary tax on companies from 12.5% to 10%. The lower effective tax rate for Vodacom in the 2007 financial year was mainly due to the utilization of the Vodacom Congo's capital expenditure allowances.

Minority interests

Minority interests in the income of subsidiaries decreased 3.0% to R197 million in the year ended March 31, 2008 primarily due to the purchase of the remaining equity interest of 30% in Smartphone on August 31, 2007, partially offset by an increase in profits generated by our TDS Directory Operations subsidiary and Vodacom Tanzania. Minority interests in the income of subsidiaries increased 46.0% to R203 million in the year ended March 31, 2007 primarily due to the increase in profits generated by Smartphone, Vodacom Tanzania and Cointel partially offset by the purchase of additional equity interests in Smartphone and Cointel.

Profit for the year attributable to equity holders of Telkom

Profit for the year attributable to equity holders of Telkom decreased in the 2008 financial year primarily due to decreased operating profit in our fixed-line and other segments, partially offset by increased operating profit in our mobile segment. Higher finance charges and lower investment income were partially offset by lower taxation. Profit for the year attributable to equity holders of Telkom decreased in the 2007 financial year primarily due to decreased operating profit in our fixed-line segment, partially offset by increased operating profit in our mobile segment. Lower investment income and higher taxation was partially offset by an increase in net fair value and exchange gains.

Fixed-line segment

The following is a discussion of the results of operations from our fixed-line segment before eliminations of intercompany transactions with the mobile and other segments. Our fixed-line segment is our largest segment based on revenue and profit contribution.

Fixed-line operating revenue

Our fixed-line operating revenue is derived principally from fixed-line subscriptions and connections; traffic, which comprises local and long-distance traffic, fixed-to-mobile traffic, international outgoing traffic and international voice over internet protocol services; and interconnection, which comprise terminating and hubbing traffic. We also derive fixed-line operating revenue from our data business, which includes data transmission services, managed data networking services and internet access and related information technology services.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value added services and free or discounted rates on calls. Traffic revenue from calling plan subscriptions was reported as part of local traffic revenue in financial years prior to the 2007 financial year, as most of these calling plans related to local calls only and the amounts were insignificant. The access line rentals and value added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Commencing in the 2007 financial year, subscription based on calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

The following table shows operating revenue for our fixed-line segment broken down by major revenue streams and as a percentage of total revenue for our fixed-line segment and the percentage change by major revenue stream for the periods indicated.

	Fixed-line operating revenue							
	Year ended March 31,						2007/2006 % change	2008/2007 % change
	2006		2007		2008			
	ZAR	%	ZAR	%	ZAR	%		
(in millions, except percentages)								
Subscriptions and connections	5,803	18.2	6,286	19.4	6,330	19.4	8.3	0.7
Traffic	17,563	55.2	16,740	51.8	15,950	49.0	(4.7)	(4.7)
Local	5,753	18.1	4,832	14.9	4,076	12.6	(16.0)	(15.6)
Long-distance	3,162	9.9	2,731	8.5	2,252	6.9	(13.6)	(17.5)
Fixed-to-mobile	7,647	24.0	7,646	23.6	7,557	23.2	—	(1.2)
International outgoing	1,001	3.2	988	3.1	986	3.0	(1.3)	(0.2)
Subscription based calling plans	—	—	543	1.7	1,079	3.3	—	98.7
Interconnection	1,654	5.2	1,639	5.1	1,757	5.4	(0.9)	7.2
Data	6,674	21.0	7,489	23.1	8,308	25.5	12.2	10.9
Sundry revenue	138	0.4	191	0.6	227	0.7	38.4	18.8
Fixed-line operating revenue	31,832	100.0	32,345	100.0	32,572	100.0	1.6	0.7

Fixed-line operating revenue increased in the 2008 financial year primarily due to continued growth in data services and higher revenue from subscription based calling plans, interconnection and subscriptions and connections, partially offset by a decrease in traffic revenue, particularly local and long distance traffic revenue. Fixed-line operating revenue increased in the 2007 financial year, primarily due to continued growth in data services and higher subscriptions and connections revenue, partially offset by lower average traffic tariffs, lower local and long distance traffic and lower interconnection revenue.

Fixed-line operating revenue was adversely impacted in both the 2008 and 2007 financial years due to a decrease in the number of residential postpaid PSTN lines primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections, and a decrease in the number of prepaid PSTN lines as a result of customer migration to mobile services and our residential postpaid PSTN services to enable access to subscription based calling plans and was positively impacted by our increase in ISDN channels, ADSL services and, to a lesser extent, business postpaid PSTN lines. In addition, traffic was adversely affected in both years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in our payphones business. As a result, traffic declined 4.7% in both the 2008 and 2007 financial years. Revenue per fixed access line decreased 0.5% to R5,250 in the 2008 financial year from R5,275 in the 2007 financial year primarily due to the decline in traffic tariffs and local traffic volumes, partially offset by increased subscription based calling plans, interconnection and subscriptions and connections tariffs. Revenue per fixed access line decreased 0.5% to R5,275 in the 2007 financial year from R5,304 in the 2006 financial year primarily due to the decline in traffic tariffs, lower local traffic volumes and lower interconnection revenue, partially offset by increased subscriptions and connection tariffs.

Subscriptions and connections. Revenue from subscriptions and connections consists of revenue from connection fees, monthly rental charges, value added voice services and the sale and rental of customer premises equipment for postpaid and prepaid PSTN lines, including ISDN channels and private payphones. Subscriptions and connections revenue is principally a function of the number and mix of residential and business lines in service, the number of private payphones in service and the corresponding charges. The following table sets forth information related to our fixed-line subscription and connection revenue during the periods indicated.

Fixed-line subscription and connection revenue

	Year ended March 31,				
	2006	2007	2008	2007/2006 % change	2008/2007 % change
Total subscriptions and connections revenue (ZAR millions, except percentages)	5,803	6,286	6,330	8.3	0.7
Total subscription access lines (thousands, except percentages) ⁽¹⁾	4,551	4,490	4,395	(1.3)	(2.1)
Postpaid					
PSTN ⁽²⁾	2,996	2,971	2,893	(0.8)	(2.6)
ISDN channels	693	718	754	3.6	5.0
Prepaid PSTN	854	795	743	(6.9)	(6.5)
Private payphones	8	6	5	(25.0)	(16.7)

Notes:

- (1) Total subscription access lines are comprised of PSTN lines, including ISDN lines and private payphones, but excluding internal lines in service and public payphones. Each analog PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate ISDN line includes 30 access channels.
- (2) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fiber.

Revenue from subscriptions and connections increased in the years ended March 31, 2008 and 2007 mainly due to increased tariffs as well as an increase in the number of ISDN lines and, to a lesser extent, business postpaid PSTN lines, partially offset by lower residential postpaid PSTN lines and prepaid PSTN lines. The average monthly prices for subscriptions increased by 6.0% on September 1, 2005, 8.3% on August 1, 2006 and 12.0% on August 1, 2007. In the 2007 financial year, revenue from the sale of customer premises equipment increased as a result of the reclassification of the related leases previously accounted for as operating leases to finance leases, resulting in the recognition of income from the lease of customer premises equipment at the time of sale as opposed to over the life of the contract. In addition, increased revenue was received from voice enhanced services, mainly as a result of increased penetration.

The decrease in the number of residential postpaid PSTN lines in service in both the 2008 and 2007 financial years was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections. The increase in the number of postpaid ISDN channels was driven by increased demand for higher bandwidth and functionality. The decrease in prepaid PSTN lines in both the 2008 and 2007 financial years was primarily due to continued migration to mobile services and our residential postpaid PSTN services to enable access to subscription based calling plans. In addition, we relaxed our credit policies which led to fewer migrations of our postpaid customers to prepaid service in the 2008 and 2007 financial years.

For a discussion of our connection and rental fees, see Item 4. "Information on the Company – Business Overview – Fixed-line communications – Fees and tariffs – Subscription and connection tariffs" and for a discussion of the number of lines during the periods, see Item 4. "Information on the Company – Business Overview – Fixed-line communications – Products and services".

Traffic. Traffic revenue consists of revenue from local, long distance, fixed-to-mobile and international outgoing calls, international voice over internet protocol services and subscription based calling plans. Traffic revenue is principally a function of tariffs and the volume, duration and mix between relatively more expensive domestic long distance, international and fixed-to-mobile calls and relatively less expensive local calls.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value added services and free or discounted rates on calls. Traffic revenue from calling plan subscriptions was reported as part of local traffic revenue in financial years prior to the 2007 financial year, as most of these calling plans related to local calls only and the amounts were insignificant. The access line rentals and value added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Commencing in the 2007 financial year, subscription based on calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

Traffic includes dial up internet traffic. Telkom has reclassified calling plans from local, long distance and fixed-to-mobile traffic into a separate line item to disclose traffic from subscription based calling plans in the 2007 and 2008 financial year. Traffic for the 2006 financial year was not restated.

The following table sets forth information related to our fixed-line traffic revenue for the periods indicated.

	Fixed-line traffic revenue				
	<u>Year ended March 31,</u>			<u>2007/2006</u>	<u>2008/2007</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>% change</u>	<u>% change</u>
Local traffic revenue (ZAR millions, except percentages)	5,753	4,832	4,076	(16.0)	(15.6)
Local traffic (millions of minutes, except percentages) ⁽¹⁾	18,253	14,764	11,317	(19.1)	(23.3)
Long distance traffic revenue (ZAR millions, except percentages)	3,162	2,731	2,252	(13.6)	(17.5)
Long distance traffic (millions of minutes, except percentages) ⁽¹⁾	4,446	4,224	3,870	(5.0)	(8.4)
Fixed-to-mobile traffic revenue (ZAR millions, except percentages)	7,647	7,646	7,557	–	(1.2)
Fixed-to-mobile traffic (millions of minutes, except percentages) ⁽¹⁾	4,064	4,103	4,169	1.0	1.6
International outgoing traffic revenue (ZAR millions, except percentages)	1,001	988	986	(1.3)	(0.2)
International outgoing traffic (millions of minutes, except percentages) ⁽¹⁾	515	558	635	8.3	13.8
International voice over internet protocol (millions of minutes, except percentages) ⁽²⁾	83	38	43	(54.2)	13.2
Subscription based calling plans revenue (ZAR millions, except percentages)	–	543	1,079	–	98.7
Subscription based calling plans (millions of minutes, except percentages)	–	1,896	2,997	–	58.1
Total traffic revenue (ZAR millions, except percentages)	17,563	16,740	15,950	(4.7)	(4.7)
Total traffic (millions of minutes, except percentages) ⁽¹⁾	27,361	25,583	23,031	(6.5)	(10.0)
Average total monthly traffic minutes per average monthly access line (minutes) ⁽³⁾	482	456	417	(5.4)	(8.6)

Notes:

- (1) Traffic, other than international voice over internet protocol traffic, is calculated by dividing total traffic revenue by the weighted average tariff during the relevant period. Traffic includes dial up internet traffic.
- (2) International voice over internet protocol traffic is based on the traffic reflected in invoices.
- (3) Average monthly traffic minutes per average monthly access line are calculated by dividing the total traffic by the cumulative number of monthly access lines in the period.

Traffic revenue declined in the 2008 and 2007 financial years primarily due to lower average traffic tariffs and lower local traffic volumes partially offset by increased subscription based calling plans and revenue, international outgoing and fixed-to-mobile traffic.

ICASA approved a 3.0% reduction in the overall tariffs for services in the basket for which there is a price cap effective September 1, 2005, a 2.1% reduction in the overall tariffs for services in the basket effective August 1, 2006 and a 1.2% reduction in the overall tariffs for services in the basket effective August 1, 2007. Traffic was adversely affected in both the 2008 and 2007 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dialup traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN lines and increased competition in our payphone business.

For a discussion of our traffic tariffs, see Item 4. "Information on the Company – Business Overview – Fixed-line communications – Fees and tariffs – Traffic tariffs" and for a discussion of our traffic during the periods discussed, see Item 4. "Information on the Company – Business Overview – Fixed-line communications – Products and Services – Traffic."

Local traffic revenue decreased in the 2008 financial year primarily due to significantly lower traffic resulting primarily from internet call usage being substituted by our ADSL service, the substitution of calls placed using mobile services and discounts to business customers, partially offset by increased local off-peak tariffs and traffic volumes related to Telkom Closer packages. Local traffic revenue decreased in the 2007 financial year due to lower traffic resulting primarily from internet call usage being substituted by our ADSL service and the substitution of calls placed using mobile services. We increased penetration of discount and subscription based calling plans to stimulate usage in the 2008 and 2007 financial years and to counteract mobile substitution, which effectively lowers the cost to the customer. On September 1, 2005, we decreased the price of local peak calls after the first unit by 5.0% to 38 SA Cents per minute (VAT inclusive). This price was unchanged on August 1, 2006 and August 1, 2007. On August 1, 2007, the price of local off-peak calls increased 4.1% on average.

Long distance traffic revenue decreased in the 2008 financial year mainly due to a decrease in average long distance tariffs and, to a lesser extent, decreased long distance traffic, partially offset by increased traffic related to Telkom Closer packages and Worldcall. Long distance traffic revenue decreased in the 2007 financial year mainly due to a decrease in average long distance tariffs, which was partially offset by increased long distance traffic. We decreased our fixed-line long distance traffic tariffs by 10% on September 1, 2005, a further 10% on August 1, 2006 and a further 10% on August 1, 2007.

Revenue from fixed-to-mobile traffic consists of revenue from calls made by our fixed-line customers to the three mobile networks in South Africa and is primarily a function of fixed-to-mobile tariffs and the number, the duration and the time of calls. Fixed-to-mobile traffic revenue decreased in the 2008 financial year due to higher discount offered to customers in order to retain traffic, partially offset by higher traffic related to the Telkom Closer packages. Fixed-to-mobile traffic revenue was flat in the 2007 financial year. Increased fixed-to-mobile traffic was partially offset by higher discounts offered to customers in order to retain traffic on our network. The increase in fixed-to-mobile traffic in the 2008 and 2007 financial years was primarily due to discounts offered to larger customers on fixed-to-mobile calls.

Revenue from international outgoing traffic consists of revenue from calls made by our fixed-line customers to international destinations and from international voice over internet protocol services and is a function of tariffs and the number, duration and mix of calls to destinations outside South Africa. In the 2008 and 2007 financial years, international outgoing traffic revenue declined primarily as a result of a decrease in the average international outgoing tariffs, partially offset by an increase in international outgoing traffic primarily as a result of the reduced tariffs. The average tariffs to all international destinations decreased by 11.1% on August 1, 2006 and by 9.0% on August 1, 2007.

Revenue from subscription based calling plans include revenue from Telkom's subscription based plans, Telkom Closer and Supreme Call, which are bundled products on post-paid PSTN lines that include discounted rates and free minutes for a fixed monthly subscription fee. In the 2008 financial year, revenue from subscription based calling plans increased by 98.7% primarily due to a 69.4% increase in customers subscribing to these packages.

Interconnection. We generate revenue from interconnection services for traffic from calls made by other operators' customers that terminate on or transit through our network. Revenue from interconnection services includes payments from domestic mobile, domestic fixed and international operators regardless of where the traffic originates or terminates. The following table sets forth information related to interconnection revenue for the years indicated.

Interconnection revenue

	Year ended March 31,			2007/2006 % change	2008/2007 % change
	2006 ZAR	2007 ZAR	2008 ZAR		
Interconnection revenue (ZAR millions, except percentages)	1,654	1,639	1,757	(0.9)	7.2
Interconnection revenue from domestic mobile operators (ZAR millions, except percentages) . .	760	816	838	7.4	2.7
Domestic mobile interconnection traffic (millions of minutes, except percentages) ⁽¹⁾	2,299	2,419	2,502	5.2	3.4
Interconnection revenue from domestic fixed-line operators (ZAR millions, except percentages) . .	–	–	28	–	–
Domestic fixed-line interconnection traffic (millions of minutes, except percentages) ⁽²⁾	–	–	113	–	–
Interconnection revenue from international operators (ZAR millions, except percentages) . .	894	823	891	(7.9)	8.3
International interconnection traffic (millions of minutes, except percentages) ⁽²⁾	1,355	1,321	1,280	(2.5)	(3.1)

Notes:

- (1) Domestic mobile interconnection traffic, other than international outgoing mobile traffic, is calculated by dividing total domestic mobile and domestic fixed-line interconnection traffic revenue, respectively, by the weighted average domestic mobile and domestic fixed-line interconnection traffic tariffs during the relevant period. International outgoing mobile traffic is based on the traffic registered through the respective exchanges and reflected in interconnection invoices.
- (2) International interconnection and domestic fixed-line interconnection traffic is based on the traffic registered through the respective exchanges and reflected on interconnection invoices.

Interconnection revenue from domestic mobile operators includes revenue for call termination and international outgoing calls from domestic mobile networks, as well as access to other services, such as emergency services and directory enquiry services. Interconnection revenue from domestic mobile operators increased in the 2008 and 2007 financial years mainly due to increased traffic from domestic mobile operators, partially offset by lower average tariffs on mobile international outgoing calls. Domestic mobile interconnection traffic increased in the years ended March 31, 2008 and 2007 primarily due to an overall increase in mobile calls as a result of a growing mobile market, partially offset by increased mobile-to-mobile calls bypassing our network. Interconnection revenue from domestic mobile operators includes fees paid to our fixed-line business by Vodacom of R468 million in the year ended March 31, 2008, R468 million in the year ended March 31, 2007 and R464 million in the year ended March 31, 2006. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

Interconnection revenue from domestic fixed-line operators includes fees paid by Neotel, underserved area license holders and value added network service providers for call termination and international outgoing calls, as well as access to other services, such as emergency services and directory inquiry services. With effect from May 23, 2007, ICASA approved interconnection rates with Neotel, underserved area license holders and value added network service providers for interconnection on our fixed-line network. In October 2007, Neotel commenced interconnection with Telkom. In July 2007, Telkom began interconnection with the underserved area license holders and in November 2007, value added network service providers. We expect interconnection revenue to increase as a result of the entrance of Neotel and the further liberalization of the South African telecommunications industry, which may partially mitigate declines in revenue in other areas.

Interconnection revenue from international operators includes amounts paid by foreign operators for the use of our network to terminate calls made by customers of such operators and payments from foreign operators for interconnection hubbing traffic through our network to other foreign networks. Interconnection revenue from international operators increased in the year ended March 31, 2008 primarily due to the weakening of the Rand against the SDR, the notional currency in which international rates are determined, and increased switched hubbing traffic volumes due to a reduction in tariffs to stimulate competitiveness, partially offset by lower volumes and settlement rates. Interconnection revenue from international operators decreased in the year ended March 31, 2007 primarily due to decreased settlement rates and volume discounts and decreased switched hubbing traffic volumes, partially offset by increased international termination tariffs and the weakening of the Rand.

Data. Data services comprise data transmission services, including leased lines and packet based services, managed data networking services and internet access and related information technology services. In addition, data services include revenue from ADSL. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance. The following table sets forth information related to revenue from data services for the periods indicated.

Data services revenue					
	<u>Year ended March 31,</u>				
	2006	2007	2008	2007/2006	2008/2007
	ZAR	ZAR	ZAR	% change	% change
Data services revenue (ZAR millions, except percentages)	6,674	7,489	8,308	12.2	10.9
Leased lines and other data revenue ⁽¹⁾	5,304	5,828	6,460	9.9	10.8
Leased line facilities revenues from mobile operators	1,370	1,661	1,848	21.2	11.3
Number of managed network sites (at period end) . .	16,887	21,879	25,112	29.6	14.8
Internet dial-up subscribers (at period end)	228,930	210,453	242,732	(8.1)	15.3
Internet ADSL subscribers (at period end)	53,997	92,140	115,334	70.6	25.2
Total ADSL subscribers (at period end) ⁽²⁾	143,509	255,633	412,190	78.1	61.2

Notes:

- (1) Leased lines and other data revenue includes all data services revenue other than leased line facilities revenue from mobile operators.
- (2) Excludes Telkom internal ADSL services of 751, 523 and 249 as of March 31, 2008, 2007 and 2006, respectively.

Our data services revenue increased in both the 2008 and 2007 financial years primarily due to increased revenue from data connectivity service, including ADSL connectivity and SAIX, internet access, and managed data networks, including VPN Supreme and increased revenue from leased line facilities from mobile operators. These increases were partially offset by decreased tariffs for leased line facilities to mobile operators and data connectivity services. Revenue from leased line facilities from mobile operators increased in the years ended March 31, 2008 and 2007 primarily due to the roll-out of third generation and universal mobile telecommunications system products by the mobile operators.

Operating revenue from our data services included R1,028 million, R907 million and R845 million in revenue received by our fixed-line business from Vodacom in the years ended March 31, 2008, 2007 and 2006, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

For a discussion of our data services, see Item 4. “Information on the Company – Business Overview – Fixed-line communications – Products and services – Data communications services”.

Sundry revenue. Sundry revenue includes revenue relating to collocation of other licensed operators on Telkom owned properties, the sale of materials and revenue related to the recovery of costs for work performed on behalf of other licensed operators. Sundry revenue increased by 18.8% to R227 million in the 2008 financial year and 38.4% to R191 million in the 2007 financial year from R138 million in the 2006 financial year primarily due to an increase in prices, and in the 2007 financial year, volumes, for collocation and recoveries.

Fixed-line operating expenses

The following table shows the operating expenses of our fixed-line segment broken down by expense category as a percentage of total revenue and the percentage change by operating expense category for the years indicated.

	Fixed-line operating expenses							
	Year ended March 31,							
	<u>2006</u>	<u>% of</u>	<u>2007</u>	<u>% of</u>	<u>2008</u>	<u>% of</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>revenue</u>	<u>ZAR</u>	<u>revenue</u>	<u>ZAR</u>	<u>revenue</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)							
Employee expenses ⁽¹⁾ . .	6,314	19.8	7,096	21.9	7,397	22.7	12.3	4.2
Payments to other network operators	6,140	19.3	6,461	20.0	6,902	21.2	5.2	6.8
Selling, general and administrative expenses ⁽²⁾⁽³⁾	2,837	8.9	3,976	12.3	3,899	11.9	40.1	(1.9)
Services rendered	2,045	6.4	2,206	6.8	2,413	7.4	7.9	9.4
Operating leases	755	2.4	762	2.4	619	1.9	0.9	(18.8)
Depreciation, amortization, impairments and write-offs	4,363	13.7	3,582	11.1	3,732	11.5	(17.9)	4.2
Fixed-line operating expenses	22,454	70.5	24,083	74.5	24,962	76.6	7.3	3.6

Notes:

- (1) Employee expenses include workforce reduction expenses of R3 million, R24 million and R85 million in the years ended March 31, 2008, 2007 and 2006, respectively.
- (2) In the year ended March 31, 2007 we recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges. In the year ended March 31, 2008 we recorded a provision of R569 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R53 million and foreign exchange rate effect of R52 million, which are included in finance charges, partially offset by a provisional payment made in respect of specific sub-claims within the Telcordia claim.
- (3) Includes a R217 million impairment relating to Telkom Media in the 2008 financial year.

Fixed-line operating expenses increased in the 2008 financial year primarily due to increased payments to other network operators, employee expenses, services rendered and depreciation, amortization, impairment and write-offs, partially offset by lower leases and selling, general and administrative expenses. Fixed-line operating expenses increased in the 2007 financial year primarily due to increased selling, general and administrative expenses, employee expenses, payments to other operators and services rendered, partially offset by lower depreciation, amortization, impairments and write-offs.

Employee expenses. Employee expenses consist mainly of salaries and wages for employees, including bonuses and other incentives, benefits and workforce reduction expenses.

The following table sets forth information related to our employee expenses for the years indicated.

Fixed-line employee expenses

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
				<u>% change</u>	<u>% change</u>
	(ZAR millions, except percentages and number of employees)				
Salaries and wages	4,466	5,095	5,509	14.1	8.1
Benefits	2,383	2,673	2,671	12.2	(0.1)
Workforce reduction expenses	85	24	3	(71.8)	(87.5)
Employee related expenses capitalized	(620)	(696)	(786)	12.3	12.9
Employee expenses	6,314	7,096	7,397	12.4	4.2
Number of full-time, fixed-line employees					
(at period end)	25,575	25,864	24,879	1.1	(3.8)

Employee expenses increased in the year ended March 31, 2008 primarily due to higher salaries and wages as a result of average annual salary increases of 7.0%, and increased share option grant expenses as a result of the higher number of shares granted in the year, partially offset by lower team awards. Employee expenses increased in the year ended March 31, 2007 primarily due to higher salaries and wages as a result of average annual salary increases of 7.0% and related benefits, a 1.1% increase in the number of fixed-line employees and increased payments to part time employees and contractors.

Salaries and wages increased in the year ended March 31, 2008 primarily due to average annual salary increases of 7.0% and was further impacted by increased payments to contractors from original equipment manufacturers. Salaries and wages increased in the year ended March 31, 2007 primarily due to average annual salary increases of 7.0% and a 1.1% increase in the number of fixed-line employees and increased payments to part time employees and contractors to meet customer centricity objectives and the deployments of next generation network objectives.

Benefits include allowances, such as bonuses, company contributions to medical aid, pension and retirement funds, leave provisions, workmen's compensation and levies payable for skills development. Benefits decreased in the 2008 financial year primarily due to lower team awards, a lower provision for medical aid for pensioners as a result of the annuity policy qualifying as a plan asset in June 2006, a lower provision for leave as a result of the decrease in the number of employees and lower training expenses, partially offset by increased share option grant expenses as a result of the higher number of shares allocated during the year. Benefits increased in the 2007 financial year due to increases in salaries and wages, higher pension fund contributions resulting from the movement of employees from the pension fund to the retirement fund and the funding of the related deficit, increased post-retirement telephone benefits, increased sales commissions, increased training and increased critical skills retention.

Workforce reduction expenses include the cost of voluntary early retirement, termination severance packages offered to employees and the cost of social plan expense to prepare affected employees for new careers outside Telkom. Workforce reduction expenses decreased substantially in the years ended March 31, 2008 and 2007 due to the moratorium on voluntary severance packages taken in the 2007 financial year. Workforce reduction expenses in the 2007 financial year included social planning expenses as part of Telkom's workforce reduction program. An additional four employees in the 2008 financial year, 13 employees in the 2007 financial year and 245 employees in the 2006 financial year left Telkom as part of the conclusion of Telkom's workforce reduction initiatives for the 2005 financial year. For additional information related to our fixed-line employee numbers, see Item 4. "Information on the Company – Business Overview – Fixed-line communications – Employees".

Employee related expenses capitalized include employee related expenses associated with construction and infrastructure development projects. Employee related expenses capitalized increased in the years ended March 31, 2008 and March 31, 2007 primarily due to annual salary increases and increased capital expenditures on projects during the year.

Payments to other network operators. Payments to other network operators include settlement payments paid to the three South African mobile communications network operators and commencing in the 2008 financial year, Neotel, for terminating calls on their networks and to international network operators for terminating outgoing international calls and traffic transiting through their networks.

The following table sets forth information related to our payments to other network operators for the periods indicated.

Fixed-line payments to other network operators

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(ZAR millions, except percentages)				
Payments to mobile communications network operators	5,220	5,425	5,460	3.9	0.6
Payments to international and other network operators	920	1,036	1,208	12.6	16.6
Payments to fixed-line operators	–	–	234	n/a	n/a
Payments to other network operators	6,140	6,461	6,902	5.2	6.8

Payments to fixed-line operators in the 2008 financial year were as a result of interconnection commencing with Neotel, USALS and VANS during the 2008 financial year. Payments to mobile and international network operators increased in the 2008 and 2007 financial years primarily due to higher call volumes from our fixed-line network to the mobile networks, resulting from discounts offered on our CellSaver and Telkom Closer products, increased fixed-to-mobile calls by business customers due to growth in the mobile market, increased international outgoing traffic arising from our reduced average international tariffs and a weaker exchange rate in the 2008 and 2007 financial years. As discussed above in Item 4. "Information on the company – Fixed-line communications – Fees and tariffs – Interconnection tariffs," the termination rate we pay to mobile operators and our retention have not changed in the three years ended March 31, 2008, while our international outgoing tariffs have generally decreased during this period. Payments to other network operators include payments made by our fixed-line business to Vodacom, which were R3,017 million, R2,954 million and R2,855 million in the years ended March 31, 2008, 2007 and 2006, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include materials and maintenance costs, marketing expenditures, bad debts, theft, losses and other expenses, including obsolete stock and cost of sales.

The following table sets forth information related to our fixed-line selling, general and administrative expenses for the periods indicated.

Fixed-line selling, general and administrative expenses

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	<u>(ZAR millions, except percentages)</u>				
Materials and maintenance	1,608	1,900	1,996	18.2	5.1
Marketing	378	604	583	59.8	(3.5)
Bad debts	154	137	217	(11.0)	58.4
Other ⁽¹⁾⁽²⁾	697	1,335	1,103	91.5	(17.4)
Selling, general and administrative expenses ⁽¹⁾⁽²⁾	2,837	3,976	3,899	40.1	(1.9)

Notes:

- (1) In the year ended March 31, 2007 we recorded a provision of R527 million for probable liabilities related to Telkom's arbitration with Telcordia, excluding legal fees, of which R510 million is included in selling, general and administrative expenses and R11 million for interest and R6 million for foreign exchange rate effect is included in finance charges. In the year ended March 31, 2008 we increased the provision to R569 million for probable liabilities related to Telkom's arbitration with Telcordia, including legal fees. The movement in the provision is due to increased interest of R53 million and foreign exchange rate effect of R52 million, which are included in finance charges, partially offset by a provisional payment made in respect of specific sub-claims within the Telcordia claim.
- (2) Includes a R217 million impairment relating to Telkom Media in the 2008 financial year.

Selling, general and administrative expenses decreased primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, and lower marketing expense, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year – increased materials and maintenance expenses and higher bad debts. Selling, general and administrative expenses increased in the year ended March 31, 2007 primarily due to the provision raised for probable liabilities in the Telcordia dispute, higher materials and maintenance expenses, increased marketing and sponsorships and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses.

Materials and maintenance expenses include stock write-offs, subcontractor payments and consumables required to maintain our network. Materials and maintenance expenses increased in the year ended March 31, 2008 primarily due to increased operating maintenance projects as result of an increase in the number of technologies employed in the network and higher fuel costs as a result of the increased price of fuel. Materials and maintenance expenses increased in the year ended March 31, 2007 primarily due to higher incidents of copper theft, increased operating maintenance projects and a higher number of maintenance contracts as result of new technology rollout.

Marketing expenses decreased in the year ended March 31, 2008 primarily due to lower sponsorships and decreased calling plan advertising during the year. Marketing expenses increased in the year ended March 31, 2007 primarily due to increased sponsorships, higher market research costs and increased advertising and media campaigns. We expect marketing expenses in response to increased competition, including from Neotel, and the further liberalization of the South African communications industry generally, and the marketing of our packages will increase and sponsorships will decrease.

Bad debt increased in the year ended March 31, 2008 due to provisions for higher international bad debts in certain countries, including Nigeria, Gabon and the United Kingdom. Bad debt decreased in the year ended March 31, 2007 resulting primarily from improved credit management and credit vetting policies, targeted line roll-out and an improved profiling of debtors. Bad debt as a percentage of revenue was 0.7%, 0.4% and 0.5% in the 2008, 2007 and 2006 financial years, respectively.

Other expenses include obsolete stock, cost of sales, subsistence and travel and an offset for bad debts recovered. Other expenses decreased in the year ended March 31, 2008 primarily due to the provision for probable liabilities in the Telcordia dispute in the 2007 financial year, which were not increased significantly in the 2008 financial year, partially offset by the R217 million impairment of the Telkom Media loan in the 2008 financial year. Other expenses increased in the year ended March 31, 2007 primarily due to the provision raised for probable liabilities in the Telcordia dispute and increased costs of sales due to the reclassification of finance leases associated with customer premises equipment in selling, general and administrative expenses.

Services rendered. Services rendered include payments in respect of the management of our properties, to TFMC, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services and external auditors. Security refers to services to safeguard the network and contracts to ensure a safe work environment, such as guard services.

The following table sets forth information relating to services rendered expenses for the periods indicated.

Fixed-line services rendered

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(ZAR millions, except percentages)				
Property management	1,109	1,141	1,222	2.9	7.1
Consultants, security and other	936	1,065	1,191	13.8	11.8
Services rendered	2,045	2,206	2,413	7.9	9.4

Property management increased in the year ended March 31, 2008 primarily as a result of increased property payment costs, mainly related to increased electricity usage, electricity rates and taxes, payments to consultants to explore local and international investment opportunities, higher security costs due to increases in contract prices and maintenance and monitoring of the cable alarm system and legal fees related to Telcordia. Property management increased in the year ended March 31, 2007 primarily as a result of increased salary, wages, maintenance, rates and taxes at TFMC, which are passed through to us. Payments to consultants increased in the year ended March 31, 2007 primarily due to increased payments to consultants to explore local and international investment opportunities, customer centricity and higher security costs.

Operating leases. Operating leases include payments in respect of equipment, buildings and vehicles. Operating leases decreased in the year ended March 31, 2008 primarily due to a discount received on the extension of our vehicle lease and a reduction in the number of vehicles from 9,694 at March 31, 2007 to 8,792 at March 31, 2008. Operating leases was relatively flat in the year ended March 31, 2007.

Fixed-line depreciation, amortization, impairments and write-offs

	Year ended March 31,			2007/2006 % change	2008/2007 % change
	2006	2007	2008		
Depreciation of property, plant and equipment	3,789	2,993	3,061	(21.0)	2.3
Amortization of intangibles	387	305	409	(21.2)	34.1
Write-offs of property, plant and equipment and intangible assets	187	284	262	51.9	(7.7)
Depreciation, amortization, impairments and write-offs	4,363	3,582	3,732	(17.9)	4.2

Depreciation, amortization, impairments and write-offs increased in the year ended March 31, 2008 primarily as a result of higher amortization of intangible assets and increased depreciation due to the ongoing investment in telecommunications network equipment and data processing equipment, partially offset by lower asset write-offs. Depreciation, amortization, impairments and write-offs decreased in the year ended March 31, 2007 primarily as a result of an increase in the useful life of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment.

Mobile segment

Mobile encompasses all the operating activities of our 50% joint venture investment in Vodacom, the largest mobile operator in South Africa with an approximate 55% market share as of March 31, 2008 based on total estimated customers in South Africa. In addition to its South African operations, Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique.

Vodacom's operations outside of South Africa are at an earlier stage in their expansion and market penetration than its operations in South Africa. Customers in other African countries increased significantly over the past three financial years to approximately 9.2 million as of March 31, 2008 from approximately 7.1 million as of March 31, 2007 and approximately 4.4 million as of March 31, 2006. A substantial portion of the growth was from prepaid services. Services outside of South Africa are mainly prepaid as these countries suffer from poverty and also due to the lack of banking systems and credit histories.

The following table shows information related to our 50% share of Vodacom's operating revenue and operating profit broken down by Vodacom's South African operations and operations in other African countries for the periods indicated. All amounts in this table and the discussion of our mobile segment that follows represent 50% of Vodacom's results of operations unless otherwise stated and are before the elimination of intercompany transactions with us.

Mobile operating revenue and profits

	Year ended March 31,							
	2006		2007		2008		2007/2006	2008/2007
	ZAR	%	ZAR	%	ZAR	%	% change	% change
	(in millions, except percentages)							
Operating revenue . . .	17,021	100.0	20,573	100.0	24,089	100.0	20.9	17.1
South Africa	15,535	91.3	18,504	89.9	21,392	88.8	19.1	15.6
Other African countries . .	1,486	8.7	2,069	10.1	2,697	11.2	39.2	30.4
Operating profit ⁽¹⁾	4,436	100.0	5,430	100.0	6,247	100.0	22.4	15.0
South Africa	4,292	96.8	5,170	95.2	5,852	93.7	20.5	13.2
Other African countries . .	144	3.2	260	4.8	395	6.3	80.6	51.9
EBITDA ⁽¹⁾⁽²⁾	5,908	100.0	7,123	100.0	8,217	100.0	20.6	15.4

Notes:

- (1) Mobile operating profit and mobile EBITDA include our 50% share of a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets in Mozambique and an impairment loss of R23 million and R30 million in the 2007 and 2008 financial years, respectively, in respect of the assets in Mozambique due to a decrease in the fair value of the assets.
- (2) Mobile EBITDA comprises our 50% share of Vodacom's EBITDA, which represents mobile net profit, which includes the profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortization and impairments. See footnote 6 in Item 3. "Key Information – Selected Historical Consolidated Financial and Other Data of Vodacom Group" for a reconciliation of EBITDA of Vodacom to net profit. See footnote 3 in the table under "Operating and Financial Review and Prospects – Results of Operations – Year ended March 31, 2008 compared to year ended March 31, 2007 and year ended March 31, 2006 – Consolidated results" for a reconciliation of mobile EBITDA to operating profit. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant tax regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same.

Mobile operating revenue

Vodacom derives revenue from mobile services as well as other related or value added goods and services. Vodacom's revenue is mainly in the form of airtime charges, primarily airtime payments from customers registered on Vodacom's network; data products and services; interconnection revenue from other operators for the termination of calls on Vodacom's network and national roaming revenue, revenue from equipment sales, including sales of handsets and accessories; and revenue from international services, including airtime charges for the use of Vodacom's network through roaming of customers from other international networks and Vodacom customers who roam abroad.

The following table shows our 50% share of Vodacom's revenue broken down by major revenue type and as a percentage of total operating revenue for our mobile segment and the percentage change by revenue type for the periods indicated.

	Mobile operating revenue							
	Year ended March 31,							
	2006		2007		2008		2007/2006 % change	2008/2007 % change
	ZAR	%	ZAR	%	ZAR	%		
	(in millions, except percentages)							
Airtime	10,043	59.0	11,854	57.6	13,548	56.3	18.0	14.3
Data	1,019	6.0	1,671	8.1	2,501	10.4	64.0	49.7
Interconnection	3,348	19.7	3,918	19.0	4,443	18.4	17.0	13.4
Equipment sales	1,993	11.7	2,350	11.4	2,526	10.5	17.9	7.5
International airtime	486	2.9	653	3.2	918	3.8	34.4	40.6
Other sales and services	132	0.7	127	0.7	153	0.6	(3.8)	20.5
Mobile operating revenue	17,021	100.0	20,573	100.0	24,089	100.0	20.9	17.1

The following table sets forth non-financial operational data of Vodacom for the periods indicated.
The amounts stated reflect 100% of Vodacom's customers and traffic minutes.

		Year ended March 31,				
		2006	2007	2008	2007/2006 % change	2008/2007 % change
South Africa						
Total mobile customers (thousands) (at year end)	(1)	19,162	23,004	24,821	20.1	7.9
Contract		2,362	3,013	3,541	27.6	17.5
Prepaid		16,770	19,896	21,177	18.6	6.4
Community services telephones		30	95	103	216.7	8.4
Total inactive mobile customers (%) (at year end)	(2)	8.7	10.7	10.3	23.0	(3.7)
Contract		2.4	3.1	4.0	29.2	29.0
Prepaid		9.6	11.8	11.4	22.9	(3.4)
Gross connections (thousands)		9,140	10,859	12,040	18.8	10.9
Contract (3)		506	666	782	31.6	17.4
Prepaid (3)		8,618	10,124	11,248	17.5	11.1
Community services		16	69	10	331.3	(85.5)
Churn (%) (4)		17.7	33.8	42.3	91.0	25.1
Contract		10.0	9.7	8.3	(3.0)	(14.4)
Prepaid		18.8	37.5	47.9	99.5	27.7
Total mobile traffic (millions of minutes)	(5)	17,066	20,383	22,769	19.4	11.7
Outgoing		11,354	13,638	15,323	20.1	12.4
Incoming		5,712	6,745	7,446	18.1	10.4
ARPU (ZAR) (6)		139	125	125	(10.1)	0.0
Contract		572	517	486	(9.6)	(6.0)
Prepaid		69	63	62	(8.7)	(1.6)
Community services		1,796	902	689	(49.8)	(23.6)
Average MOU (7)		74	69	66	(6.8)	(4.3)
Contract		206	188	172	(8.7)	(8.5)
Prepaid		49	47	46	(4.1)	(2.1)
Community services		2,327	1,151	883	(50.5)	(23.3)
Number of mobile employees (at year end)	(8)	4,305	4,727	4,849	9.8	2.6
Number of mobile customers per mobile employee	(8)	4,451	4,867	5,119	9.3	5.2
Other African countries (9)						
Total mobile customers (thousands) (at year end)	(1)(2)	4,358	7,146	9,173	64.0	28.4
Lesotho		206	279	395	35.4	41.6
Tanzania		2,091	3,247	4,207	55.3	29.6
Democratic Republic of Congo		1,571	2,632	3,289	67.5	25.0
Mozambique		490	988	1,282	101.6	29.8
Gross connections (thousands)						
Lesotho		98	119	176	21.4	47.9
Tanzania		1,353	2,092	2,645	54.6	26.4
Democratic Republic of Congo		892	1,688	2,141	89.2	26.8
Mozambique		342	797	951	133.0	19.3
Churn (%) (4)						
Lesotho		22.3	19	17.8	(14.8)	(6.3)
Tanzania		28.5	35.6	45.5	24.9	27.8
Democratic Republic of Congo		28.1	30.4	48.0	8.2	57.9
Mozambique		32.2	41.7	58.7	29.5	40.8
ARPU (ZAR) (6)						
Lesotho		78	75	73	(3.8)	(2.7)
Tanzania		67	52	49	(22.4)	(5.8)
Democratic Republic of Congo		86	77	59	(10.5)	(23.4)
Mozambique		36	28	29	(22.2)	3.6
Number of employees (at year end)	(8)	1,154	1,522	1,992	31.9	30.9
Lesotho		67	63	97	(6.0)	54.0
Tanzania		438	527	766	20.3	45.4
Democratic Republic of Congo		479	745	919	55.5	23.4
Mozambique		170	187	210	10.0	12.3
Number of mobile customers per mobile employee (at year end)	(8)	3,776	4,695	4,605	24.3	(1.9)

Notes:

- (1) Vodacom's customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the period indicated.
- (2) Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. Vodacom's contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment. Up to June 15, 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. Because a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity and a majority of such messages are never retrieved by the customer, resulting in estimated ARPUs of less than R1 per month, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity effective June 15, 2006. Vodacom deleted approximately 3 million customers during the period of this rule change. As a result of the rule change, prepaid churn rates and ARPUs increased during the 2007 financial year. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards were disconnected from the network after being inactive for a 215 consecutive day period. Since implementing this change, prepaid SIM cards remaining in an active state on the network, with only call forwarding to voicemail and no other revenue generating activities, increased significantly. Vodacom therefore implemented a supplementary disconnection rule in September 2007 to disconnect inactive prepaid SIM cards after 13 months of being kept in an active state, by call forwarding to voicemail only, and not having has any other revenue generating activity on Vodacom's network. The implementation of the supplementary disconnection rule led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007, increasing churn on the prepaid customer base to 47.9% in the 2008 financial year and resulted in higher prepaid ARPU than would have otherwise occurred. For other African countries, each subsidiary has its own disconnection rule to disconnect inactive prepaid customers. Vodacom Lesotho disconnects its prepaid customers at the expiration of time window lock of 210 days. Vodacom Tanzania, Vodacom DRC and Vodacom Mozambique disconnect their prepaid customers if they record no revenue generating activity within a period of 215 consecutive days.
- (3) Gross connections have been restated in the 2006 financial year due to a change in Vodacom's reporting policy. Conversions between categories have now been excluded from gross connections. Based on the previous policy, contract connections would have been 702 thousand in the 2006 financial year and prepaid connections would have been 8,422 thousand in the 2006 financial year.
- (4) Vodacom's churn is calculated by dividing the average monthly number of disconnections during the year by the average monthly total reported customer base during the year. Vodacom's South African market share is derived from Vodacom's total customers, and the total estimated mobile customers of MTN, Cell C and Virgin Mobile.
- (5) Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls. Vodacom has changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic.
- (6) Vodacom's average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the year by the average monthly total reported customer base during the year. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks.
- (7) Vodacom's average monthly minutes of use per customer, or average MOU, is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the year. MOU excludes calls to free services, bundled minutes and data minutes.
- (8) Vodacom had a total of 732, 581 and 469 temporary and contract employees as of March 31, 2008, 2007 and 2006, respectively. Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees.
- (9) Includes 100% of Vodacom's operations in the Democratic Republic of the Congo.

Vodacom's operating revenue increased in the 2008 and 2007 financial years primarily due to increased airtime, data, interconnection and equipment sales revenue as a result of continued customer growth. Vodacom's equipment sales further increased in the 2008 financial year due to the added functionality of new phones based on new technologies and in the 2007 financial year due to the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies.

Our 50% share of Vodacom's revenue from operations outside of South Africa increased to R2,697 million for the year ended March 31, 2008 from R2,069 million for the year ended March 31, 2007 from R1,486 million in the year ended March 31, 2006. The increase in Vodacom's operating revenue from other African countries in the 2008 and 2007 financial years was primarily due to substantial increases in the number of customers in Vodacom's operations, particularly in Tanzania, the Democratic Republic of the Congo and Mozambique, and the weakening of the Rand in the 2008 and 2007 financial year, which resulted in higher Rand converted revenue, partially offset by lower ARPU resulting from the higher volume of lower spending prepaid customers. Revenue from Vodacom's other African countries as a percentage of Vodacom's total mobile operating revenue increased to 11.2% in the year ended March 31, 2008 from 10.1% in the year ended March 31, 2007 and 8.7% in the year ended March 31, 2006.

A large part of the growth in mobile services was due to the success of prepaid services and the increased growth in contract customers due to prepaid customers migrating to contracts.

South African contract ARPU decreased to R486 per month in the 2008 financial year from R517 per month in the 2007 financial year and R572 per month in the 2006 financial year. South African prepaid ARPU decreased to R62 per month in the 2008 financial year from R63 per month in the 2007 financial year and R69 per month in the 2006 financial year. In the 2008, 2007 and 2006 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts. In the 2007 financial year, Vodacom changed its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity for a six-month period, resulting in the deletion of approximately 3 million customers. Prepaid ARPU was positively impacted by this temporary rule change in the 2007 financial year. Vodacom subsequently changed its definition of revenue generating activity back to include calls forwarded to voicemail effective September 1, 2006. Such SIM cards were disconnected from the network after being inactive for a 215 consecutive day period. Since implementing this change, prepaid SIM cards remaining in an active state on the network, with only call forwarding to voicemail and no other revenue generating activities, increased significantly. Vodacom therefore implemented a supplementary disconnection rule in September 2007 to disconnect inactive prepaid SIM cards after 13 months of being kept in an active state, by call forwarding to voicemail only, and not having any other revenue generating activity on Vodacom's network. The implementation of the supplementary disconnection rule led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007, which resulted in higher prepaid ARPU than would have otherwise occurred. Approximately 85.3% of Vodacom's South African mobile customers were prepaid customers at March 31, 2008 and approximately 93.4% of all gross connections were prepaid customers in the 2008 financial year. Vodacom expects the number of prepaid mobile users to continue to grow to a greater extent than contract mobile users. The increasing number of prepaid users, who tend to have lower average usage, and the lower overall usage as the lower end of the market is penetrated have historically resulted in decreasing overall average revenue per customer. Total South African ARPU remained stable at R125 per month in the 2008 financial year, after decreasing in the 2007 financial year to R125 per month from R139 per month in the 2006 financial year. Total South African ARPU remained stable in the 2008 financial year, despite declining South African contract and prepaid ARPU, due to a shift in the customer mix to higher spending contract customers, which represented 14.3% of total South African customers as of March 31, 2008 compared to 13.1% as of March 31, 2007.

Service providers in South Africa generally subsidize handsets when a contract customer enters into a new contract or renews an existing contract depending on the airtime and tariff plan and type of handset purchased. Subsidized handset sales give customers an incentive to switch operators to obtain new handsets and have contributed to churn. Handsets for prepaid customers are not subsidized by Vodacom as these users have the freedom of switching operators and contribute to churn. Vodacom is more vulnerable to churn than other mobile communications providers in South Africa since it has the largest number of customers in South Africa. To date, mobile number portability had no significant impact on churn.

The cost to acquire contract customers in a highly developed market is high. Vodacom has therefore implemented upgrade and retention policies over the last few years and has strived to maintain a high level of incentives to service providers in order to reduce churn. Vodacom's churn rate for contract customers in South Africa decreased to 8.3% in the 2008 financial year from 9.7% in the 2007 financial year and 10.0% in the 2006 financial year mainly due to an improvement in service and products to customers and the continued high level of handset support to retain customers. Prepaid churn is adversely impacted by an increasingly competitive market, lower barriers to entry for prepaid customers in South Africa and the volatile nature of the prepaid customer base. Vodacom's churn rate for prepaid customers in South Africa increased to 47.9% in the 2008 financial year from 37.5% in the 2007 financial year and 18.8% in the 2006 financial year. The increase in prepaid churn in the 2008 financial year was mainly due to the supplementary disconnection rule implemented, which led to the disconnection of an additional 2.9 million prepaid SIM cards in September 2007. The increase in prepaid churn in the 2007 financial year was mainly due to the deletion of 3 million customers as a result of the rule change for revenue generating activity and the resulting clean up of inactive customers. For a discussion of Vodacom's churn rate, see Item 3. "Key Information – Selected Historical Consolidated Financial and Other Data of the Vodacom Group."

Airtime. Vodacom derives airtime revenue from connection and monthly rental fees and airtime usage fees paid by Vodacom's contract customers for use of its mobile networks. Airtime revenue also includes fees paid by Vodacom's prepaid phone customers for prepaid starter phone packages and airtime recharge vouchers utilized, which entitle customers to receive unlimited incoming calls up to 365 days. Airtime revenue depends on the total number of customers, traffic volume, mix of prepaid and contract customers and tariffs.

Vodacom's airtime revenue increased in the years ended March 31, 2008 and March 31, 2007 primarily due to continued customer growth, partially offset in the 2007 financial year by an overall continued decline in ARPU resulting from the effect of growth in lower spending prepaid customers. As Vodacom's primary market in South Africa continues to mature and Vodacom continues to connect more marginal customers in its South African operations, Vodacom expects that growth in airtime in South Africa will continue to slow. Total customers increased 12.7% and 28.2% in the years ended March 31, 2008 and 2007, respectively, primarily due to strong prepaid customer growth in South Africa and significant customer growth in Vodacom's operations outside of South Africa, particularly in Tanzania, the Democratic Republic of the Congo and Mozambique in the 2008 and 2007 financial years. New products, packages and services also had a role in Vodacom's customer growth in the 2007 financial year. For a discussion of Vodacom's customers and traffic see Item 4. "Information on the Company – Business Overview – Mobile communications – South Africa – Customers" and Item 4. "Information on the Company – Business Overview – Mobile communications – South Africa – Traffic".

Data revenue. Vodacom derives data revenue from mobile data, including short messaging services, or SMSs, and multimedia messaging services, or MMSs, general packet radio services, or GPRS, and third generation services, or 3G. Data revenue contributed 10.4% of Vodacom's total revenue in the year ended March 31, 2008, up from 8.1% in the year ended March 31, 2007 and 6.0% in the year ended March 31, 2006. Vodacom's mobile data revenue increased in the year ended

March 31, 2008 primarily due to higher penetration levels influenced by more affordable product offerings. Vodacom's mobile data revenue increased in the year ended March 31, 2007 primarily due to significant growth in SMS usage and the continued rollout of data initiatives such as Vodafone Mobile Connect Cards, Vodafone Live!, Mobile TV, BlackBerry® and the continued delivery of wireless application services.

In South Africa, Vodacom transmitted 4.7 billion SMSs over its network in the 2008 financial year, compared to 4.5 billion SMSs in the 2007 financial year. There was an increase in users of GPRS in the 2008 financial year, with the number of GPRS users increasing to approximately 4.7 million as of March 31, 2008 from approximately 2.8 million as of March 31, 2007 and approximately 1.4 million as of March 31, 2006. The number of active data users includes approximately 1.4 million MMS users, approximately 370,000 data card and USB modem users, approximately 1.3 million 3G/HSDPA handsets, approximately 1.4 million Vodafoneline! users and approximately 31,000 Unique Mobile TV users as of March 31, 2008, compared to approximately 1.2 million MMS users, approximately 139,000 data card and USB modem users, approximately 584,000 3G/HSDPA handsets, approximately 899,000 Vodafoneline! users and approximately 33,000 Unique Mobile TV users as of March 31, 2007. As of March 31, 2008 Vodacom had 32,273 BlackBerry® users registered on its network, compared to approximately 23,328 as of March 31, 2007. Vodacom expects that the broad introduction of "always on" faster response and generally higher speed packet-switched data services, such as GPRS and universal mobile telecommunications system, or UMTS, will provide the platform for future value-added services.

Interconnection. Vodacom generates interconnection revenue when a call originating from our fixed-line network and more recently, Neotel, or one of the other mobile operators' networks terminates on Vodacom's network. Interconnection revenue also includes revenue from Cell C for national roaming services. Vodacom does not have a roaming agreement with MTN. Vodacom generates national roaming revenue when its mobile network carries a call made from a Cell C customer. Interconnection revenue depends on the volume of traffic terminating on Vodacom's network, the interconnection termination rates payable by ourselves and the other mobile operators to Vodacom and national roaming rates.

Vodacom's interconnection revenue increased in the years ended March 31, 2008 and March 31, 2007 primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally. The growth in the 2008 and 2007 financial years was also attributable to the growth in the substitution of fixed-line calls by mobile calls and incoming traffic resulting from an overall increase in the customer base of other mobile operators. The increases were partially offset by a reduced number of fixed-line calls from Telkom's network terminating on Vodacom's network. As discussed above in Item 4. "Information on the company – Fixed-line communications – Fees and tariffs – Interconnection tariffs," the termination rate we pay to Vodacom and in Item 4. "Information on the company – Mobile communications – Tariffs," the mobile-to-mobile interconnection rates have not changed in the three years ended March 31, 2008. Interconnection revenue in our mobile segment included R1,482 million, R1,454 million and R1,409 million in the years ended March 31, 2008, 2007 and 2006, respectively, for calls received from our fixed-line business, which were eliminated from the Telkom Group's revenue on consolidation.

Equipment sales. Vodacom generates revenue from equipment sales primarily from the sale of mobile phones and accessories. Vodacom purchases handsets for itself and for external service providers in bulk at purchase discounts in order to lower the cost of handset subsidization for contract customers. Equipment sales revenue fluctuates based on whether external providers and Vodacom's other African operators source equipment from Vodacom in South Africa or purchase equipment from third party suppliers.

Vodacom's equipment sales increased in the 2008 and 2007 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies such as 3G enabled phones, camera phones and color screens. Sales of the Vodafone live! handset increased significantly to 2,793,710 handsets in the 2008 financial year from 1,994,269 handsets in the 2007 financial year. The average price per handset sold was R1,052 in the 2008 financial year compared to R1,067 in the 2007 financial year.

International airtime. International airtime revenues are predominantly from international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's networks. International airtime increased 40.6% to R918 million in the year ended March 31, 2008 and 34.4% to R653 million in the year ended March 31, 2007 primarily as a result of an increase in customers resulting in increased traffic.

Other. Revenue from other sales and services includes revenue from Vodacom's cell captive insurance vehicle, wireless application services provider, or WASP, revenue, site sharing rental income as well as other revenue from non-core operations. Vodacom's other sales and services revenue increased 20.5% to R153 million in the 2008 financial year primarily due to an increase in inactivated starter packs which do not contain an expiration date, but which are recognized as income after a period of 36 months. Vodacom's other sales and services revenue decreased 3.8% to R127 million in the 2007 financial year primarily due to lower income recognized as a result of a reduction in inactivated starter packs which do not contain an expiration date, partially offset by higher revenue of Cointel and higher site rental income.

Mobile operating expenses

The following is a discussion of our mobile segment's operating expenses which are comprised of our 50% interest in Vodacom's operating expenses. Vodacom's operating expense line items are presented in accordance with the line items reflected in the Telkom Group's consolidated operating expenses which are different from the operating expense line items contained in Vodacom's consolidated financial statements.

The following table shows our 50% share of Vodacom's operating expenses and the percentage change for the periods indicated.

Mobile operating expenses

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
Employee expense	1,019	1,186	1,488	16.4	25.5
Payments to other network operators	2,317	2,818	3,279	21.6	16.4
Selling, general and administrative expenses	7,327	8,777	10,271	19.8	17.0
Services rendered	65	82	115	26.2	40.2
Operating leases	435	629	775	44.6	23.2
Depreciation, amortization and impairments	1,472	1,693	1,970	15.0	16.4
Mobile operating expenses	12,635	15,185	17,898	20.2	17.9

The increase in mobile operating expenses in the 2008 financial year was primarily due to inflationary factors and growth in the business, which led to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition, increased payments to other network operators due to

higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount as well as increased depreciation, amortization and impairment. The increase in mobile operating expenses in the 2007 financial year was primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortization and impairment, higher employee costs as a result of increased headcount, average 7.5% annual salary increases, an increase in the provision for deferred bonus schemes and an increase in the provision for long term incentives for executives and increased operating leases.

Employee expenses. Employee expenses consist mainly of salaries and wages of employees as well as contributions to employee pension, medical aid funds and benefits and the deferred bonus incentive scheme.

Vodacom's employee expenses increased in the year ended March 31, 2008 primarily as a result of a 9.5% increase in headcount to support the expansion of customer care operations, the strengthening of senior management structures to support the growth in ongoing operations and the launch of Vodacom Business. Annual salary increases and increased provisions for long-term incentive schemes also contributed to the increase in staff expenses. Vodacom's employee expenses increased in the year ended March 31, 2007 primarily as a result of an 14.5% increase in the number of employees to support the growth in operations as well as a 7.5% average annual salary increases, an increase in the provision for deferred bonus schemes and an increase in the provision for long term incentives for executives.

Total headcount in Vodacom's South African operations increased 2.6% to 4,849 employees as of March 31, 2008 and 9.8% to 4,727 employees as of March 31, 2007 from 4,305 employees as of March 31, 2006. Total headcount in Vodacom's other African countries increased 30.9% to 1,992 employees as of March 31, 2008 and 31.9% to 1,522 employees as of March 31, 2007 from 1,154 employees as of March 31, 2006. Total headcount includes temporary agency employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees. Employee productivity in South Africa and other African countries, as measured by customers per employee, increased 3.0% to 4,969 customers per employee as of March 31, 2008 and 12.0% to 4,825 customers per employee as of March 31, 2007 from 4,308 customers per employee as of March 31, 2006.

Payments to other network operators. Payments to other network operators consist mainly of interconnection payments made by Vodacom's South African and other African operations for terminating calls on other operators' networks. Vodacom's payments to other network operators increased significantly in the years ended March 31, 2008 and 2007 as a result of increased outgoing traffic in line with increased customer growth and the increasing percentage of outgoing traffic terminating on the other mobile networks rather than Telkom's fixed-line network as the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. As the mobile communications market continues to grow in South Africa, Vodacom expects that interconnection charges will continue to increase and adversely impact Vodacom's profit margins.

Payments to other network operators in our mobile segment included R234 million, R234 million and R232 million in the years ended March 31, 2008, 2007 and 2006, respectively, for interconnection fees paid to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include customer acquisition and retention costs, packaging, distribution, marketing, regulatory license fees, bad debts and various other general administrative expenses, including accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

The following table sets forth information related to our 50% share of Vodacom's selling, general and administrative expenses for the periods indicated.

Mobile selling, general and administrative expenses

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
Selling, distribution and other	6,415	7,703	9,063	20.1	17.7
Marketing	488	573	632	17.4	10.3
Regulatory and license fees	406	490	527	20.7	7.6
Bad debts	18	11	49	(38.9)	345.5
Selling, general and administrative expenses . . .	7,327	8,777	10,271	19.8	17.0

Vodacom's selling, general and administrative expenses increased in the years ended March 31, 2008 and 2007 primarily due to an increase in selling, distribution and other expenses, incentive costs, regulatory and license fees and marketing expenses to support the launch and expansion of 3G, growth in Vodacom's South African and African operations and increased competition.

Selling, distribution and other expenses include cost of goods sold, commissions, customer acquisition and retention expenses, distribution expenses and insurance. The increase in selling, distribution and other expenses in the 2008 and 2007 financial years was primarily due to increased customer connections, competition, revenue, cost of equipment as a result of increased handset sales and maintenance of the GSM infrastructure and billing systems as well as due to the Vodafone global alliance fee.

The increase in marketing expenses in the 2008 and 2007 financial years was mainly due to promoting new technologies, including 3G and Vodafone live!, promoting number portability in the 2007 financial year and further promoting the Vodacom brand in all operations. The increases in regulatory and license fees during the reporting periods were directly related to the increase in operating revenues and corresponding payments under Vodacom's existing licenses. The increase in bad debts in the 2008 financial year resulted from a clean-up of Smartphone debtors following the increase in shareholding to 100%.

Services rendered. Services rendered include consultancy services for technical, administrative and managerial services, audit fees, legal fees and communication and information technology costs. Services rendered increased in the years ended March 31, 2008 and 2007 primarily due to higher consultancy costs relating to facility management and special projects.

Operating leases. Operating leases include payments in respect of rentals of GSM transmission lines as well as office accommodation, office equipment and motor vehicles. The increase in Vodacom's operating leases in the years ended March 31, 2008 and 2007 was primarily due to an increase in the lease of transmission lines and other accommodation. Operating leases in our mobile segment included R514 million, R453 million and R423 million in the years ended March 31, 2008, 2007 and 2006, respectively, for operating lease payments to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Depreciation, amortization and impairments. Depreciation, amortization and impairments increased in the years ended March 31, 2008 and 2007 primarily due to higher capital expenditure as a result of the implementation and expansion of 3G/HSDPA networks, the weakening of the Rand against the other functional currencies of Vodacom and the impairment of assets in Vodacom Mozambique. Amortization of intangibles was higher in the year ended March 31, 2007 due to the business acquisitions in that financial year.

Other segment

Other operating revenue

Our other operating revenue is derived principally from directory services, through our TDS Directory Operations Group, fixed, mobile, data, long distance and international communications services throughout Nigeria, through our 75% owned subsidiary, Multi-Links, internet services outside South Africa, through our Africa Online Subsidiary, and wireless data services, through our Swiftnet subsidiary, and includes 100% of the losses of Telkom Media.

The following table shows the operating revenue for our other segment broken down by major revenue streams and the percentage change by major revenue stream for the periods indicated.

Other operating revenue

	<u>Year ended March 31,</u>				
	2006	2007	2008	2007/2006	2008/2007
	ZAR	ZAR	ZAR	% change	% change
	(in millions, except percentages)				
TDS Directory Operations	834	865	930	3.7	7.5
Multi-Links	—	—	845	n/a	n/a
Africa Online	—	8	110	n/a	n/a
Swiftnet	118	106	94	(10.2)	(11.3)
Telkom Media	—	—	14	n/a	n/a
Other operating revenue	952	979	1,993	2.8	103.6

Our other operating revenue increased in the 2008 financial year primarily due the inclusion in the current year of revenue generated by our newly acquired subsidiaries, Multi-Links and Africa Online. Multi-Links, which was acquired with effect from May 1, 2007, contributed R845m from its customers in the Nigerian market since its acquisition, and Africa Online, which was acquired with effect from February 23, 2007, increased the revenue contribution to the group from R8m during the 2007 financial year to R110m during the 2008 financial year.

These additional revenue streams were further supported by the continued growth in advertising revenue from our subsidiary, TDS Directory Operations, offset in part by a slight reduction in wireless data services revenue from our subsidiary, Swiftnet due to increased competition in the wireless data environment. Revenue from directory services increased in the years ended March 31, 2007 and 2008 primarily due to annual tariff increases and increased marketing and online efforts, resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers. During the 2008 financial year, R4m of revenue for TDS Directory Operations was generated through the investment in TDS Directory Operations Namibia, which was acquired in January 2007 to provide directory services in Namibia.

Other operating expenses

The following table shows operating expenses for our other segment broken down by major expense categories and the percentage change for the periods indicated.

Other operating expenses

	Year ended March 31, _				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
Employee expense	156	173	340	10.9	96.5
Payments to other operators	9	10	698	11.1	6,880.0
Selling, general and administrative expenses	325	336	532	3.4	58.3
Services rendered	5	5	45	–	800.0
Operating leases	28	25	72	(10.7)	188.0
Depreciation, amortization and impairments	41	40	143	(2.4)	257.5
Other operating expenses	564	589	1,830	4.4	210.7

Increases in other operating expenses in the 2008 financial year were primarily driven by significant increases in payments to other operators, employee expenses, depreciation, amortization and impairments, operating leases and services rendered. The increase in these operating expenses in the 2008 financial year was primarily due to the inclusion of operating expenses relating to our newly acquired subsidiaries, Multi-Links and Africa Online, and the creation of Telkom Media, all of which impacted all expense categories.

The following tables shows the contributions to other operating expenses by each of the five subsidiaries contained in our other segment and the percentage change for the periods indicated.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
TDS Directory Operations	488	504	530	3.3	5.2
Multi-Links	–	–	942	n/a	n/a
Africa Online	–	8	118	n/a	1,375.0
Swiftnet	76	77	89	1.3	15.6
Telkom Media	–	–	151	n/a	n/a
Other operating expenses	564	589	1,830	4.4	210.7

Multi-Links and Africa Online were the main contributors to the significant increase in payments to other operators in the 2008 financial year, with R624m payments made by Multi-Links and R141m payments made by Africa Online to enable their respective networks in the nine countries of operation to supply data transmission services, managed data networking services and internet access and related information technology services in these newly acquired markets.

Employee expenses increased by 96.5% in the 2008 financial year due to a significant investment in workforce during the 2008 financial year. Employee expenses of R88m in Telkom Media, R39m by Multi-Links and R28m by Africa Online were required to attract and develop the necessary skilled workforce in each of these new operating environments.

The 58.3% increase in selling, general and administrative expenditure in the 2008 financial year primarily related to R141m spent at Multi-Links, mainly on materials and maintenance to enable the further development and maintenance of its CDMA network in order to achieve subscriber growth and network reliability.

The increased investment in property, plant and equipment by Multi-Links in Nigeria and Kenya to establish a new main network site in Gbagada, Lagos, enhance the switching capacity in Lagos, expand base stations and towers, and to extend fiber deployment, resulted in a significant increase in depreciation, amortization and impairments in this segment in the 2008 financial year. The increase primarily related to R86m depreciation cost in Multi-Links and R12m from Africa Online.

The increases in services rendered and operating leases were also directly related to our newly acquired subsidiaries, Multi-Links, Africa Online and Telkom Media, that were not previously included in the Telkom Group results.

LIQUIDITY AND CAPITAL RESOURCES

Group liquidity and capital resources

Cash flows

The following table shows information regarding our consolidated cash flows for the periods indicated.

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
Cash flows from operating activities	9,506	9,356	10,603	(1.6)	13.3
Cash flows from investing activities	(7,286)	(10,412)	(14,106)	42.9	35.5
Cash flows from financing activities	(258)	(2,920)	2,943	n/a	200.8
Net (decrease)/increase in cash and cash equivalents	1,962	(3,976)	(560)	(302.7)	85.9
Effect of foreign exchange rate differences	(8)	29	44	(462.5)	51.7
Net cash and cash equivalents at the beginning of the year	2,301	4,255	308	84.9	(92.8)
Net cash and cash equivalents at the end of the year	4,255	308	(208)	(92.8)	(167.5)

Cash flows from operating activities

Our primary sources of liquidity are cash flows from operating activities and borrowings. We intend to fund our expenses, indebtedness and working capital requirements from cash generated from our operations and from capital raised in the markets. The increase in cash flows from operating activities in the 2008 financial year is mainly due to lower taxation payments as well as an increase in cash generated from operations, partially offset by higher dividends paid. The decrease in cash flows from operating activities in the 2007 financial year is mainly due to higher taxation payments, partially offset by the increase in cash generated from operations.

Cash flows from investing activities

Cash flows from investing activities relate primarily to investments in our fixed-line network, our other segment's networks and our 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. The increase in cash flows used in investing activities in the 2008 financial year was mainly the result of R1,985 million cash utilized for the purchase of Multi-Links and increased equity investments in Smartphone, increased capital expenditures in our fixed-line, mobile and other segments and lower proceeds on the disposal of investments, partially offset by higher proceeds on the disposal of property, plant and equipment and intangibles. The increase in cash flows used in investing activities in the 2007 financial year was mainly the result of increased capital expenditure in both the fixed-line and mobile segments and acquisitions of subsidiaries and reduced disposals and additions to investments.

Cash flows from financing activities

Cash flows from financing activities are primarily a function of borrowing and share buy back activities.

In the 2008 financial year, loans raised and the decrease in net financial assets exceeded loans repaid, shares bought back and cancelled and finance lease obligation repaid. In the 2008 financial year, cash flows from financing activities was primarily due to the issuance of R18,806 million nominal value of commercial paper bills, as well as entering into call and term loans of R5,600 million to fund the redemption of the TK01 bond and other cash flows from investing activities, including R1.6 billion of additional bank borrowings and interest bearing debt by Vodacom. This was partially offset by the maturing commercial paper debt of R15,773 million nominal value, the repayment of the TK01 bond with a nominal value of R4,680 million and R1,647 million paid for the repurchase of shares during the year.

In the 2007 financial year, loans and finance leases repaid and shares repurchased and cancelled exceeded loans raised and the decrease in net financial assets, by R2,920 million. In the 2007 financial year cash flows used in financing activities increased primarily due to the lower sale of repurchase agreements and derivative instruments that were sold in the 2006 financial year to fund dividends and tax payments. On October 31, 2006, we repaid the TL06 local bond having a nominal value of R2,100 million and during the 2007 financial year, we repaid R3,731 million in nominal value of commercial paper bill debt. Commercial paper bills having a nominal value of R4,651 million were issued in the 2007 financial year.

In the 2006 financial year, loans and finance lease repaid and shares repurchased and cancelled exceeded loans raised and the decrease in financial assets by R258 million. On April 11, 2005, we repaid Euro 500 million of our 7.125% unsecured Euro bond that was issued on April 12, 2000 by issuing commercial paper bills ranging in maturities from one month to one year, with yields of between 7.00% and 7.51% and by issuing a further R600 million 10.5% unsecured local bond (TL06) due October 31, 2006 at a yield to maturity of 8.18%. In addition, we repaid a net of R2,720 million of commercial paper bills and utilized R1,502 million for the share buy-back. Cash inflows from maturing financial assets amounted to R4,544 million in the 2006 financial year.

Working capital

We had negative consolidated working capital of approximately R9.3 billion as of March 31, 2008, compared to negative consolidated working capital of approximately R8.2 billion as of March 31, 2007 and approximately R3.0 billion as of March 31, 2006 and Vodacom had negative working capital of approximately R7.9 billion as of March 31, 2008, compared to negative working capital of approximately R7.4 billion as of March 31, 2007 and approximately R5.2 billion as of March 31, 2006. Negative working capital arises when current liabilities are greater than current assets. The increase in negative working capital in the 2008 financial year was primarily due to an increase in the current portion of interest bearing debt due to the repayment of the TK01 local bond with short term debt that was subsequently partially refinanced by the TL12 and TL15 bonds after the year end, a reduction in cash available due to acquisition activities, increased capital expenditure, increased dividends paid, shares repurchased and an increase in trade and other payables. The increase in negative working capital in the 2007 financial year was primarily due to a reduction in cash used to pay dividends, tax and capital expenditures and an increase in the current portion of interest bearing debt, as a result of the TK01 local bond becoming due on March 31, 2008. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with proceeds from liquidity available under credit facilities and in the capital markets, will be sufficient to meet the Telkom Group's present working capital requirements for the twelve months following the date of this annual report. We intend to fund current liabilities through a combination of operating cash flows and with new borrowings and borrowings available under existing credit facilities. We had R7.6 billion available under existing credit facilities as of March 31, 2008.

See Item 3. “Key Information – Risk Factors – Risks Related to Our Business – If Vodacom does not continue to pay dividends or make other distributions to Telkom, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom’s ordinary shares and ADSs to decline”. See Item 3. “Key Information – Risk Factors – Risks Related to Our Business – We have negative working capital, which may impair our operating and financial flexibility and require us to defer capital expenditures and we may not be able to pay dividends and our operations and financial condition could be adversely affected”.

Capital expenditures and investments

The following table shows the Telkom Group’s investments in property, plant and equipment including intangible assets, including our 50% share of Vodacom’s investments, for the periods indicated.

	<u>Year ended March 31,</u>				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2007/2006</u>	<u>2008/2007</u>
	<u>ZAR</u>	<u>ZAR</u>	<u>ZAR</u>	<u>% change</u>	<u>% change</u>
	(in millions, except percentages)				
Group capital expenditure					
Fixed-line	4,900	6,594	6,794	34.6	3.0
Baseline	2,128	3,409	4,038	60.2	18.5
Revenue generating	374	159	57	(57.5)	(64.2)
Network evolution	330	784	1,092	137.6	39.3
Sustainment	596	416	277	(30.2)	(33.4)
Effectiveness and efficiencies	1,080	1,141	841	5.6	(26.3)
Company support	375	497	451	32.5	(9.3)
Regulatory	17	188	37	1,005.9	(80.3)
Mobile	2,571	3,608	3,460	40.3	(4.1)
Other	35	44	1,646	25.7	3,640.9
Total investment in property, plant and equipment and intangible assets	7,506	10,246	11,900	36.5	16.1

Fixed-line capital expenditure, which include spending on intangible assets, increased 3.0% to R6,794 million in the 2008 financial year from R6,594 million in the 2007 financial year and represented 20.9% of fixed-line revenue compared to 20.4% in the 2007 financial year. The increase in baseline and revenue generating capital expenditure to R4,095 million in the 2008 financial year from R3,568 million in the 2007 financial year was largely for the deployment of technologies to support the growing data services business (including ADSL footprint, links to the mobile cellular operators and expenditure for access line deployment in selected high growth residential areas. The continued focus on rehabilitating the access network and increasing the efficiencies in the transport network contributed to the network evolution and sustainment capital expenditure increasing to R1,369 million in the 2008 financial year from R1,200 million in the 2007 financial year.

Telkom continues to focus on its operations support system investment with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care hardware technology upgrades on the billing platform and performance and service management. During the year ended March 31, 2008, R841 million was spent on the implementation of systems compared to R1,141 million in the 2007 financial year. Mobile capital expenditure (50% of Vodacom’s capital expenditure) decreased by 4.1% to R3,460 million in the 2008 financial year from R3,608 million in the

2007 financial year and represents 14.4% of mobile revenue compared to 17.5% in the 2007 financial year which was mainly spent in the cellular network infrastructure consisting of radio, switching and transmission network infrastructure and computer software. The decrease in capital expenditure in other African countries was largely as a result of decreased investment in Tanzania, Democratic Republic of the Congo and Mozambique offset by an increase in investment in Lesotho.

Our capital expenditure of R6,594 million on fixed-line capital expenditure in the year ended March 31, 2007 was higher than the budgeted fixed-line capital expenditure for the 2007 financial year of R6.5 billion largely due to investment in broadband services and an unfavorable exchange rate. The 34.6% increase in fixed-line capital expenditure in the 2007 financial year was primarily due to higher expenditure for business and residential broadband services, wholesale services to the mobile cellular operators, access line deployment in selected high growth residential areas, technologies to support the continued growth in our data services business, the ongoing rehabilitation of our access network and increasing the efficiencies and redundancies in our transport network in line with our planned migration to an internet protocol next generation network. The 40.3% increase in mobile capital expenditure in the 2007 financial year reflects the increased investment in South Africa and other African countries in network infrastructure due primarily to the increased customer base and higher traffic and to further support 3G technologies.

See "Principal factors that affect our Results of Operations – Capital Expenditures".

Our consolidated capital expenditures in property, plant and equipment for the 2009 financial year is budgeted to be approximately R15.2 billion, of which approximately R7.0 billion is budgeted to be spent in our fixed-line segment, and approximately R5.2 billion is budgeted to be spent in our mobile segment, which is our 50% share of Vodacom's budgeted capital expenditure of approximately R10.4 billion, and approximately R3.0 billion is budgeted to be spent in our other segment. Our capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors. See "Liquidity and Capital Resources – Capital Expenditures".

Contingent liabilities

See Item 8. "Financial information – Legal proceedings." See also Item 3. "Key Information – Risk Factors – Risks Related to Regulatory and Legal Matters" and Item 8. "Financial Information – Consolidated Financial Statements and Other Financial Information – Legal Proceedings". See also note 38 of the notes to the audited consolidated financial statements of the Telkom Group and note 38 of the notes to the audited consolidated financial statements of Vodacom included herein for additional information related to contingent liabilities of the Telkom Group and Vodacom, respectively.

Employee benefit special purpose entity

We had liabilities of R1,356 million, R1,139 million and R2,607 million in the years ended March 31, 2008, 2007 and 2006, respectively, in respect of post retirement medical aid obligations for current and retired employees.

In order to fund the liability towards the Medical aid, we set up a special purpose entity in the 2002 financial year for the purposes of funding these post retirement medical benefit obligations. In years prior to the 2006 financial year, this special purpose entity was purely used as a financing tool as we still retained our obligation to provide post retirement medical aid benefits to retired employees. The sinking fund held in the special purpose entity did not meet the definition of a plan asset in terms of IAS19 – Employee Benefits. Our interest in the special purpose entity was by way of equity, and this entity was fully consolidated in the Telkom Group's financial statements.

During the 2006 financial year, a portion of the funds held in the sinking fund of the special purpose entity was transferred to an annuity policy with the intention of specifically ringfencing funds towards the liability for pensioners over the age of 65. As of the end of the 2006 financial year, the annuity policy did not meet the definition of a plan asset in terms of IAS19 – Employee Benefits and therefore the annuity fund portion was still included in the investments value as noted above. During the 2007 financial year an addendum to the cell captive annuity policy contract was signed, which ensured that the annuity fund in the special purpose entity qualifies as a plan asset with effect from June 1, 2006. This changed the presentation of the liability and asset as the annuity policy meets the definition of a plan asset in terms of IAS19, which requires that the liability be reduced by the fair value of the plan asset. The effect of this on the consolidated annual financial statements is a reduction in investments as well as liabilities in the amount of R1,961 million. The amount of the reduction would have been approximately R1,731 million as of March 31, 2006 had this arrangement been in place as of that date. The fair value of the funds in this special purpose entity was R1,291 million, R1,279 million and R2,819 million as of March 31, 2008, 2007 and 2006, respectively, which was included in investments.

Off-balance sheet transactions

We did not have any off-balance sheet transactions during the year ended March 31, 2008.

Contractual obligations

The following table sets forth the Telkom Group's contractual obligations as of March 31, 2008:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In ZAR millions)				
Long-term debt obligations	17,631	6,413	7,539	159	3,520
Capital (finance) lease obligations	1,167	122	81	197	767
Operating leases					
Buildings	2,061	341	473	440	807
Rental receivable on buildings	(266)	(94)	(127)	(42)	(3)
Transmission and data lines	709	134	252	238	85
Vehicles	1,444	233	548	663	–
Equipment	13	10	3	–	–
Sport and marketing contracts	680	282	376	19	3
Forward exchange contracts					
– To buy	4,181	4,181	–	–	–
– To sell	(1,555)	(1,555)	–	–	–
Other long-term liabilities ⁽¹⁾	6,461	1,014	1,123	1,246	3,078
Total	32,526	11,081	10,268	2,920	8,257

Note:

- (1) Other long-term liabilities comprise the expected benefit payments from the Telkom Retirement Fund and the Telkom Pension Fund for the following ten years. These benefit payments are funded by the plan assets in the Telkom Retirement Fund and Telkom Pension Fund, respectively. The contributions to the fund in each year is determined on a statutory basis. In addition Telkom may be required to make additional contributions should there be a shortfall in the fund. In addition to the above, Telkom has an obligation under its post-retirement medical aid liability of R4,850 million which includes an unrecognized net actuarial loss of R1,565 million which is funded by plan assets of R1,929 million resulting in a recognized liability of R1,356 million. Telkom is required to fund the shortfall in this obligation in future years, as and when the obligation becomes payable.

Telkom has renewed its full maintenance lease agreement for its vehicles with debis Fleet Management (Pty) Limited, a company incorporated in South Africa, as of April 1, 2005. The original master lease agreement was for a period of five years and expired on March 31, 2005. The agreement has been extended for a further period of three years that expired on March 31, 2008. During August 2007 new terms were negotiated and approved and as a result the operating lease commitments for vehicles are based on the new agreement which expires March 31, 2013.

Funding sources

To date, we have financed our operations primarily from cash flows from operations and by borrowings in the South African and international capital markets. Access to international capital markets and its associated cost of funding depends in part on our credit ratings. We maintain an active dialog with the principal credit rating agencies who review our ratings periodically. Standard & Poor's International Ratings, LLC, a division of McGraw-Hill Companies Inc. has rated our long term foreign currency and our long term local currency issuer ratings as BBB, and Moody's Investors Services Inc., has rated our foreign currency long term debt issuer rating A3 and our national scale issuer rating as Aa3.za. As of March 31, 2008, 89.6% of our debt was local debt, compared to 90.6% as of March 31, 2007 and 92.3% as of March 31, 2006. Our Rand denominated debt bears interest at rates ranging from 180 to 250 basis points above treasuries and the effective interest rate for the year ended March 31, 2008 was 12.62%. Fixed rate debt represented approximately 51.4% of our total consolidated debt as of March 31, 2008.

The following table sets forth our consolidated indebtedness, including finance leases as of March 31, 2008.

	Interest payment dates	Interest rate (%)	Outstanding as of March 31, 2008	Nominal amount outstanding as of March 31, 2008	2009	Maturing Year ended March 31,					After 2013
			ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	
(in millions)											
TELKOM											
Bonds											
10% statutorily guaranteed local bond due not later than March 31, 2008 (TK01) ⁽¹⁾⁽²⁾⁽³⁾	March 31, September 30	10	—	—	—	—	—	—	—	—	
6% unsecured local bond due February 24, 2020 (TL20) ⁽¹⁾⁽⁴⁾	February 22	6	1,283	2,500	—	—	—	—	—	2,500	
Zero coupon unsecured loan stock due September 30, 2010 (PP02) ⁽⁵⁾	—	—	304	430	—	—	430	—	—	—	
Zero coupon unsecured loan stock due June 15, 2010 (PP03) ⁽⁶⁾	—	—	977	1,350	—	—	1,350	—	—	—	
Finance leases	n/a	12%-38%	856	856	26	11	—	17	36	766	
Commercial paper	—	—	4,201	4,383	3,483	900	—	—	—	—	
Zero coupon unsecured commercial paper bills with a maturity not later than April 2, 2009. The average discount rate on these commercial paper bills is 11.71% per annum.											
Call Borrowings	Various	11.58	2,600	2,600	2,600	—	—	—	—	—	
Term Loans	Various	12.22	3,000	3,000	—	3,000	—	—	—	—	
Bank facilities											
R459 million unsecured overdraft facility with ABSA Bank Limited, repayable on demand and a R1 billion unsecured committed facility, repayable on 364 days notice.	—	Mutually agreed	Not utilized	Not utilized	—	—	—	—	—	—	
R1 billion unsecured committed overdraft facility with The Standard Bank of South Africa Limited, repayable with 365 days of drawdown.	—	Mutually agreed	Not utilized	Not utilized	—	—	—	—	—	—	
R500 million unsecured overdraft facility with FirstRand Bank Limited, repayable on demand.	—	Mutually agreed	Not utilized	Not utilized	—	—	—	—	—	—	
R150 million unsecured overdraft facility with Commerzbank AG, repayable on demand.	—	Mutually agreed	Not utilized	Not utilized	—	—	—	—	—	—	
U.S.\$35 million unsecured short-term loan facility with Calyon Corporate and Investment bank, repayable on demand.	—	Mutually agreed	Not utilized	Not utilized	—	—	—	—	—	—	

	Interest payment dates	Interest rate (%)	Outstanding as of March 31, 2008	Nominal outstanding as of March 31, 2008	Maturing Year ended March 31,						After 2013
			ZAR	ZAR	2009 ZAR	2010 ZAR	2011 ZAR	2012 ZAR	2013 ZAR		ZAR
(in millions)											
R1 billion uncommitted/ short-term facility with Sumitomo Mitsui Banking Corporation.	–	Mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–	–
R500 million call loan facility with iNkotha Investments Ltd. repayable on demand. . .	–	Mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–	–
R1 billion loan agreement with Old Mutual Specialized finance (Pty) Ltd. repayable on demand.	–	Mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–	–
Various bank loans. ⁽³⁾	–	Various	141	141	–	–	21	13	9	98	–
Bank overdraft and other short-term debt . . .	–		41	41	41	–	–	–	–	–	–
Total Telkom			13,403	15,301	6,150	3,911	1,801	30	45	3,364	
VODACOM ⁽⁷⁾											
U.S.\$18.4 million shareholders Loan with Mirambo Limited ⁽⁸⁾ –		LIBOR + 5%	71	71	–	–	–	–	–	–	71
U.S.\$180 million term loan to Vodacom International Limited	–	LIBOR + 0.35%	731	731	–	731	–	–	–	–	–
R1 billion subscription agreement with Asset Backed Arbitrage	–	JIBAR + 0.78% to JIBAR + 0.82%	500	500	–	–	500	–	–	–	–
Securities (Pty) Ltd											
U.S.\$37.0 million preference shares by Vodacom Congo(R.D.C) s.p.r.l. ⁽⁹⁾	–	4.0%	150	150	150	–	–	–	–	–	–
U.S.\$1 million short term facility by Vodacom Congo (R.D.C) s.p.r.l.	–	18.0%	4	4	4	–	–	–	–	–	–
R6.0 million of the shareholder loan with Number Portability Company (Proprietary) Limited	–	Prime	3	3	–	–	–	–	–	–	3
Various finance leases ⁽¹⁰⁾ .	–	12.1% – 16.9%	308	308	97	49	81	42	39	–	–
Various other short-term loans	–	8%	48	48	4	22	22	–	–	–	–
Bank overdrafts and other short-term debt . . .	–	–	1,298	1,298	1,298	–	–	–	–	–	–
Total Vodacom ⁽⁷⁾			3,113	3,113	1,553	802	603	42	39	74	
TDS DIRECTORY OPERATIONS											
Various finance leases ⁽¹⁰⁾	–	Various	3	3	1	2	–	–	–	–	–
TELKOM MEDIA											
Various loans	–		8	8	–	4	2	2	–	–	–
MULTI-LINKS											
U.S.\$15 million from Zenith Bank	–	LIBOR + 3.5%	45	45	45	–	–	–	–	–	–
Naira 1,500 million FCMB loan	–	13%	87	87	–	70	17	–	–	–	–
U.S.\$17 million ECA funding	–	LIBOR + 2.5%	82	82	–	–	–	–	–	–	82
U.S.\$42 million ECA Huawei VFF funding . . .	–	LIBOR + 2%	319	319	–	–	319	–	–	–	–
AFRICA ONLINE											
Various loans	–		12	12	3	6	2	1	–	–	–
Bank overdrafts and other short term debt . . .	–		3	3	3	–	–	–	–	–	–
TOTAL OTHER	–		559	559	52	82	340	3	–	82	
GRAND TOTAL			17,075	18,973	7,755	4,795	2,744	75	84	3,520	

Notes:

- (1) Listed on the Bond Exchange of South Africa.
- (2) Open ended bond issue, and number of bonds issued varies from time to time. The bonds matured on March 31, 2008.
- (3) R141 million of Telkom's indebtedness outstanding as of March 31, 2008 was guaranteed by the Government of the Republic of South Africa.
- (4) 2,500 of these bonds were issued on February 22, 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect from April 1, 2005.
- (5) Issued on February 25, 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.
- (6) Issued on June 15, 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.
- (7) Represents Telkom's 50% share of Vodacom's indebtedness.
- (8) Repayable on approval of at least 60% of the shareholders of Vodacom Tanzania Limited.
- (9) The preference shares are redeemable, at the discretion of the shareholders, and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.
- (10) Secured by land and buildings.

We expect to repay the indebtedness and other obligations in the above table with cash flows from operations, and the refinancing of debt with new borrowings and borrowings available under existing credit facilities. Telkom's special purpose entity established to fund post retirement medical benefits obligations indirectly held 161,550 of Telkom's ordinary shares as of March 31, 2008.

The funds raised through the issuances of the above indebtedness were used for the extension and modernization of our communications networks, the provision of additional communications services, the refinancing of existing indebtedness and for general working capital purposes.

The debt instruments in the above table do not contain any restrictive covenants except a number of the instruments contain provisions limiting our ability to create liens. Some of our debt contains cross default provisions. In addition, a side letter to the subscription agreement (as amended) of our R2.5 billion 6% local bonds due February 24, 2020 contain financial maintenance covenants requiring the Telkom Group to maintain the following ratios:

- EBITDA to net interest expense ratio of no less than 3.5:1; and
- net interest bearing debt to EBITDA ratio of no greater than 2.0:1 in the 2003 financial year, increasing to 3.0:1 in the years thereafter.

The above ratios are calculated semi-annually based on accounting policies in use at the time the indebtedness was incurred. Because the above ratios are calculated based on accounting policies in use at the time the indebtedness was incurred, EBITDA for purposes of the ratios is not calculated in the same manner as it is calculated elsewhere in this document. The covenants will be effective for so long as the initial subscriber holds at least 70% in nominal value of the bonds.

The R1.6 billion bridge facility contains financial covenants requiring the Telkom Group to maintain the following ratios:

- Net interest bearing debt to EBITDA of not more than 3.0 times.
- EBITDA to net finance charges of not less than 3.5 times.

The full amount drawn under the bridge facility was repaid on April 29, 2008.

We are in compliance with the above ratios during the year ended March 31, 2008.

All debt incurred by Telkom prior to 1991 is guaranteed by the Government of the Republic of South Africa pursuant to Section 35 of the South African Exchequer Act, 66 of 1975. The Government of the Republic of South Africa does not guarantee debt incurred thereafter or Vodacom's debt. As of March 31, 2008, R141 million of our total debt of R17.1 billion was guaranteed by the Government of the Republic of South Africa.

No loans have been furnished by Telkom or any of its subsidiaries for the benefit of any director or any member of our senior management team as of March 31, 2008.

Telkom's policy is to hedge its exposure to foreign exchange rate fluctuations. Currency exchange hedges are not always commercially available in other African countries. Interest rate risk is converted to Rands and managed per our policy and control manual which stipulates guidelines on exposure to fixed and floating rate debt. Telkom's target is a net debt to EBITDA ratio for its fixed-line and other segments of 1.3 times.

Targets in a transforming industry such as ours are inherently risky, particularly in later years and investors should not place undue reliance on such targets.

Change in accounting policy

The Telkom Group's consolidated financial information discussed herein reflects the following changes to the basis of preparation:

- the adoption of an amendment to IAS1 and IFRS7, which are applicable for financial years beginning on or after January 1, 2007;
- the adoption of Circular 8/2007, which is applicable for financial years ending on or after August 31, 2007;
- the adoption of IFRIC8, which is applicable for financial years beginning on or after May 1, 2006;
- the adoption of IFRIC9, which is applicable for financial years beginning on or after June 1, 2006;
- the adoption of IFRIC10, which is applicable for financial years beginning on or after November 1, 2006; and
- the adoption of IFRIC11, which is applicable for financial years beginning on or after March 1, 2007.

For a more detailed description of these items, please see note 2 of the notes to the audited consolidated financial statements of the Telkom Group and note 48 of the notes to the audited consolidated financial statements of Vodacom included in this annual report.

Significant accounting judgments and estimates

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

The presentation of the results of operations, financial position and cash flows in the consolidated financial statements of the Telkom Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these consolidated financial

statements. Management has made certain judgments in the process of applying the Telkom Group's accounting policies. These, together with the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, are as follows:

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual categories of property, plant, equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry, as well as Telkom's plan to migrate to a next generation network over the next few years, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 5.6 of the consolidated financial statements of the Telkom Group. The estimation of residual values of assets is also based on management's judgment as to whether the assets will be sold or used to the end of their useful lives and what their condition will be like at that time.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgment to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Refer to notes 10 and 11 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Asset retirement obligations

Management judgment is exercised when determining whether an asset retirement obligation exists, and in determining the present value of expected future cash flows and discount rate when the obligation to dismantle or restore the asset arises, as well as the estimated useful life of the related asset.

Impairments of property, plant and equipment, and intangible assets

Management is required to make judgments concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that an impairment exists. The Telkom Group applies the impairment assessment to its separate cash-generating units. This requires management to make significant judgments concerning the existence of impairment indicators, identification of separate cash-generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs to sell. Management judgment is also required when assessing whether a previously recognized impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less costs to sell and value in use. Key assumptions on which management has based its determination of fair value less costs to sell include the existence of binding sale agreements, and for the determination of value in use include projected revenues, gross margins, average revenue per asset component, capital expenditure, expected customer bases and market share. The judgments, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment.

Refer to notes 10 and 11 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Impairment of other financial assets

At each balance sheet date management assesses whether there are indicators of impairment of financial assets, including equity investments. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management judgment is required when determining the expected future cash flows. To determine whether the decline in fair value is prolonged, reliance is placed on an assessment by management regarding the future prospects of the investee. In measuring impairments, quoted market prices are used, if available, or projected business plan information from the investee for those financial assets not carried at fair value.

Refer to notes 12 and 19 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Impairment of receivables

An impairment is recognized for estimated losses firstly on an individually significant trade receivable and secondly on a group of trade receivables with similar credit risk that are assessed to be impaired based on objective evidence as a result of one or more events that occurred during the reporting period. For those customers which have defaulted management makes judgments based on an assessment of their ability to make payments based on credit worthiness and historical write-off experience. Should the financial condition of the customers change, actual write offs could differ significantly from the impairment.

Refer to notes 12 and 18 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Leases

The determination of whether an arrangement is, or contains, a lease is based on whether, at the date of inception, the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives from the lessor, are charged to the income statement on a straight line basis over the period of the lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. Assets acquired in terms of finance leases are capitalized at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases are included as a liability in the balance sheet. Lease finance costs are amortized in the income statement over the lease term using the effective interest rate method. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognized in the income statement over the term of the lease.

Refer to notes 12, 15 and 37 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Deferred taxation asset

Management judgment is exercised when determining the probability of future taxable profits which will determine whether deferred tax assets should be recognized or derecognized. The realization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognize unutilized taxation credits, management needs to determine the extent that future payments are likely to be available for set-off. In the event that the assessment of future payments and future utilization changes, the change in the recognized deferred taxation assets must be recognized in profit or loss.

Refer to note 16 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Taxation

The tax rules and regulations in South Africa as well as the other African countries within which the Group operates are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African tax laws to further develop through changes in South Africa's existing tax structure as well as clarification of the existing tax laws through published interpretations and the resolution of actual tax cases. Management has made a judgment that all outstanding tax credits will be available for utilization before the tax regime change is effective, despite the change of secondary tax on companies to withholding tax.

Refer to note 8 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Taxation of subsidiaries

The growth of the Telkom Group, following its geographical expansion into other African countries over the past few years, has made the estimation and judgment more challenging. The resolution of taxation issues is not always within the control of the Telkom Group and it is often dependent on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Telkom Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated income statement and the current taxation payments. Group entities are regularly subject to evaluation, by the relevant tax authorities, of its historical tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules to the business of the relevant Group entities. These disputes may not necessarily be resolved in a manner that is favorable for the Telkom Group. Additionally the resolution of disputes could result in an obligation for the Telkom Group that exceeds management's estimate.

Deferred taxation rate

Management makes judgments on the tax rate applicable based on the Group's expectations at balance sheet date on how the asset is expected to be recovered or the liability is expected to be settled.

Refer to note 16 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered. The obligation and assets related to each of the post retirement benefits are determined through an actuarial valuation, which relies heavily on assumptions as disclosed in note 29 to the consolidated annual financial statements. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the expected return on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post retirement benefits may be affected materially.

The discount rate used reflects the average timing of the estimated defined benefit payments. The discount rate is based on long term South African government bonds with the longest maturity period

as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

The overall expected rate of return on assets is determined based on the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

Telkom provides equity compensation in the form of the Telkom Conditional Share Plan to its employees. The related expense and reserve are determined through an actuarial valuation, which relies heavily on assumptions. The assumptions include employee turnover percentages and whether specified performance criteria will be met. Changes to these assumptions could affect the amount of expense ultimately recognized in the consolidated financial statements.

Refer to note 29 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Provisions and Contingent liabilities

Management's judgment is required when recognizing and measuring provisions and when measuring contingent liabilities as set out in notes 28 and 38 of the consolidated annual financial statements, respectively. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgment. The Group is required to recognize provisions for claims arising from litigation when the occurrence of the claim is probable and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgments regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Refer to note 28 of the notes to the audited consolidated financial statements of the Telkom Group for the method used to apply our accounting principles.

Revenue recognition

To reflect the substance of each transaction, revenue recognition criteria are applied to each separately identifiable component of a transaction. In order to account for multiple-element revenue arrangements in developing its accounting policies, the Telkom Group considered the guidance contained in the United States Financial Accounting Standards Board (FASB) Emerging Issues Task Force No 00-21 Revenue Arrangements with Multiple Deliverables. Judgment is required to separate those revenue arrangements that contain the delivery of bundled products or services into individual units of accounting, each with its own earnings process, when the delivered item has stand-alone value and the undelivered item has fair value. Further judgment is required to determine the relative fair values of each separate unit of accounting to be allocated to the total arrangement consideration. Changes in the relative fair values could affect the allocation of arrangement consideration between the various revenue streams.

Judgment is also required to determine the expected customer relationship period. Any changes in these assessments may have a significant impact on revenue and deferred revenue.

Dealer incentives

Telkom provides incentives to its retail payphone card distributors as trade discounts. Incentives are based on sales volume and value. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Vodacom acts as a principal in its relationship with its dealers and service providers. Dealers and service providers are not permitted to purchase and resell Vodacom airtime, they simply pass on to the customer, the airtime that arises from the customer's use of the Vodacom network.

The role of the dealers and service providers is to undertake sales and marketing of airtime services, including connection and renewal of contract customers and sales to pre paid customers, and certain administrative services in relation to customers connected to the Vodacom network, such as sales force and customer care and billing of individual customers for which they are compensated by Vodacom. In effect, Vodacom has simply outsourced these functions, which they would otherwise have performed internally, incurred and recorded as expenses, and the contract between Vodacom and their dealers and service providers specifies what these functions are and how they will be compensated by incentive commissions.

Vodacom pays amounts to its service providers and dealers for the ongoing administration of its customers on a monthly basis.

The following incentive commissions are also paid by Vodacom to its dealers and service providers:

Contract connection and retention incentive commissions

Contract products that may include deliverables such as a handset and 24 month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost and commissions paid to service providers and dealers that are applicable to these identified deliverables are recognized based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Contract retention incentive commissions

These commissions are paid to service providers or dealers for all contract packages. Vodacom calculates the incentive paid monthly and the expense is recognized in the period it is earned by the service provider or dealer.

Prepaid incentive commissions

Prepaid products that may include deliverables such as a SIM card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost and commissions paid to service providers and dealers that are applicable to these identified deliverables are recognized on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Distribution incentive commissions

These commissions are paid to service providers or dealers to maintain and increase their loyalty to, and exclusivity with, Vodacom. These commissions are deferred and expensed over the contractual relationship period.

Handset incentive commissions

These incentives are offered by Vodacom to dealers who purchase phones from Vodacom to provide to customers, which are recorded as a net against revenue.

Item 6. Directors, senior management and employees

DIRECTORS AND SENIOR MANAGEMENT

Directors and senior management of Telkom

Directors of Telkom

The management of Telkom is vested in its board of directors. Telkom's articles of association specify that the board shall consist of not less than eight and not more than eleven members. It currently has nine members. In accordance with Telkom's articles of association, the Government, as the holder of the class A ordinary share, and the Public Investment Corporation, through its wholly owned subsidiary, Black Ginger 33 (Pty) Ltd., or Black Ginger, as the beneficial holder of the class B ordinary share, are entitled to appoint directors based on the percentage of the issued ordinary shares owned by them. As of the date hereof, the Government is entitled to appoint five directors, including two executive directors, and the Public Investment Corporation is entitled to appoint one executive or non-executive director to Telkom's board of directors. Telkom's shareholders are entitled to appoint, in a general meeting, that number of directors, if any, that are not appointed by the holder of the class A ordinary share, the holder of the class B ordinary share or the board of directors. The shareholders in a general meeting are not entitled to fill a vacancy created by a director appointed by either the holder of the class A ordinary share or the class B ordinary share. If, as of March 4, 2011, the class A ordinary share and class B ordinary share have not otherwise been converted into ordinary shares under the terms of Telkom's articles of association, they will be so converted and the rights of the beneficial holders of the class A ordinary share and class B ordinary share, respectively, including their rights to appoint members of Telkom's board of directors will be terminated.

The chief executive officer is Telkom's most senior executive and the exercise of his authority is subject to the authority and direction of the board of directors. Telkom's articles of association provide that the chief executive officer shall be an executive director nominated and appointed at least every three years by the board of directors, after consultation with the Government, for so long as it is a significant shareholder. Pursuant to Telkom's articles of association, the board of directors is required to meet at least once a quarter.

Significant shareholder

Pursuant to Telkom's articles of association, a significant shareholder is any person that holds either a class A ordinary share or a class B ordinary share and at least 15% of Telkom's issued ordinary shares, subject to adjustment to reflect additional issuances of ordinary shares by Telkom after March 4, 2003, provided that the percentage will not be lower than 10%.

Thintana Communications sold a 14.9% interest in Telkom to South African and certain international institutional investors in June 2004. Following the completion of this sale, Thintana Communications beneficially owned a 15.1% interest in Telkom, including the class B ordinary share, and remained a significant shareholder. In November 2004 Thintana Communications announced that it sold its remaining 15.1% interest in Telkom, including its class B ordinary share, to the Public Investment Corporation, an investment management company wholly owned by the South African Government, and Black Ginger. Following the sale by Thintana Communications, all of Thintana Communications' representatives on Telkom's board and its management designees were replaced.

As of June 30, 2008, Black Ginger beneficially owned 9.0% of Telkom's issued and 9.3% of Telkom's outstanding shares and the class B ordinary share. The Public Investment Corporation directly owned 6.6% of Telkom's issued and 6.8% of Telkom's outstanding ordinary shares that were acquired in the market. Black Ginger is not a "significant shareholder" of Telkom, however, it is entitled

to appoint one executive or non-executive director to Telkom's board of directors, as the beneficial holder of the class B ordinary share. As of June 30, 2008, the Government of the Republic of South Africa owned 39.8% of Telkom's issued and 41.5% of Telkom's outstanding ordinary shares, plus the class A ordinary share, and is entitled to appoint five directors, including two executive directors, to Telkom's board of directors and is the only "significant shareholder" of Telkom. In addition, as of June 30, 2008, the Elephant Consortium beneficially owned 5.9% of Telkom's issued and 6.1% of Telkom's outstanding shares that were initially purchased by the Public Investment Corporation from Thintana Communications and subsequently transferred to the Elephant Consortium. To the Telkom Group's knowledge, the Elephant Consortium is not affiliated with the Government of the Republic of South Africa or the Public Investment Corporation. The Elephant Consortium is not a "significant shareholder" of Telkom and is not entitled to appoint any executive or non-executive directors to Telkom's board of directors.

Directors

The following resignations and appointments to the Telkom board of directors occurred since April 1, 2007:

Resignations

LLR Molotsane
PL Zim
DD Tabata
M Mostert
YR Tenza
TF Mosololi
TD Mahloele
B Molefe
MJ Lamberti
A G Rhoda

Date of resignation

April 5, 2007
April 11, 2007
September 19, 2007
September 19, 2007
September 19, 2007
October 26, 2007
January 30, 2008
March 5, 2008
June 3, 2008
July 3, 2008

Appointments

RJ September
MJ Lamberti
RJ Huntley
Dr E Spio-Garbrah
Dr VB Lawrence
B Molefe
AG Rhoda

Date of appointment

May 8, 2007
May 29, 2007
September 20, 2007
September 20, 2007
September 20, 2007
January 30, 2008 and July 3, 2008
March 5, 2008

The following are Telkom's directors as of March 31, 2008. All of Telkom's directors are citizens of the Republic of South Africa, unless otherwise indicated.

Name	Year of birth	Business address	Position	Expiration of term of office	Year of appointment
Shirley Therese Arnold ⁽¹⁾	1950	Telkom Towers North 152 Proes Street Pretoria, 0002, South Africa	Chairperson of the board; Non-executive Director	2009	2006
Reuben September . . .	1957	Telkom Towers North 152 Proes Street Pretoria, 0002, South Africa	Chief Executive Officer, Executive Director	2010	2007
Sibusiso Luthuli ⁽²⁾	1973	14 Crompton Street, Pinetown, 3600, South Africa	Non-executive Director	2008	2005
Brahm du Plessis ⁽²⁾ . . .	1955	41 St. John Road Houghton, 2041, South Africa	Non-executive Director	2008 until next AGM	2004
Keitumetse Matthews ⁽¹⁾	1951	Shop G4, Richmond Centre, Main Road, Plumstead, Cape Town, 7800, South Africa	Non-executive Director	2009	2006
Mark Lamberti ⁽²⁾⁽³⁾	1950	54 Oxford Avenue Sandhurst, Sandton 2196, South Africa	Non-executive Director	2010	2007
RJ Huntley ⁽¹⁾	1962	Unit A1, Building A, 1st Floor, Rutherford Estate, 1 Scott Street, Waverley, Johannesburg, 2001, South Africa	Non-executive Director	2010	2007
Dr E Spio-Garbrah ⁽¹⁾⁽⁴⁾	1953	CTO, Fourth Floor, 28 Hammersmith Grove, London W6 7BA, England.	Non-executive Director	2010	2007
Dr VB Lawrence ⁽¹⁾⁽⁵⁾ . . .	1945	Stevens Institute of Technology, Castle Point on Hudson, Hoboken, New Jersey, 07030, United States of America	Non-executive Director	2010	2007
AG Rhoda ⁽⁶⁾⁽⁷⁾	1960	Maxfin 367, Surrey Ave, Block B, Ferndale, Johannesburg, 2194	Non-executive Director	Open term	2008

In addition, the following director was appointed to the board after March 31, 2008:

B Molefe ⁽⁶⁾	1966	Glenfield Office Park, Oberon Avenue Faerè Glen, 0043	Non-executive Director	Open term	2008
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Notes:

- (1) Government representative.
- (2) Independent.
- (3) Resigned June 3, 2008.
- (4) Ghanaian.
- (5) American.
- (6) Public Investment Corporation representative.
- (7) Resigned July 3, 2008

Shirley Therese Arnold was appointed to the board on November 1, 2006 as chairperson and non-executive director. Ms. Arnold has served as a non-executive director and chairperson of the Empowerment Committee of Peermont Global Ltd since July 2004. Ms. Arnold is a member of the Chairpersons Forum, Gordon Institute of Business and also a member of the Independent Directors Initiative and the Institute of Directors in South Africa. She is a trustee of the Thutuka Bursary Fund (SAICA) and the Maths Centre, and is also a patron of the Student Sponsorship Programme. Ms. Arnold was a non-executive director of Ernst & Young South Africa from February 2002 to April 2006 and acting chairperson from February 2005 to April 2006. She was also a member of the accounting firm's nominations committee from November 2004 to April 2006. Ms. Arnold holds a Bachelor of Arts degree and a Certificate in Education.

Reuben September was appointed to the board on May 8, 2007 and as chief executive officer on November 22, 2007. Previously, he served as acting chief executive officer since April 5, 2007, as chief operating officer since September 5, 2005, as chief technical officer from May 2002 until August 2005 and as managing executive of technology and network services from March 2000 to April 2002. He has worked in various engineering and commercial positions at Telkom since 1977. He is a member of the Professional Institute of Engineers of South Africa (ECSA) and holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Cape Town. Mr. September is also a director of Vodacom.

Sibusiso Luthuli was appointed to the board on July 29, 2005. Mr. Luthuli is the managing director of Ithala Limited, a position he was appointed to in July 2004. Prior to that he was finance director of Ithala Limited from January 2004 to June 2004. Other positions Mr. Luthuli held include that of executive manager at Nedbank Corporate from April 2000 to December 2003. He is non-executive chairman of Enaleni Pharmaceuticals Limited, chairman of the University of KwaZulu-Natal Audit Committee, a member of the University of KwaZulu-Natal Council, director of Richards Bay Industrial Development Zone (IDZ) Company, member of Thekweni Municipality Audit Committee, director of Luthuli & Luthuli Investments (Proprietary) Limited, trustee of Amathuli Trust and member of the KZN Provincial Government audit committee. Mr. Luthuli holds a Bachelor of Commerce degree from the University of Zululand, a post graduate diploma in Accountancy from the University of Durban Westville, and is a qualified Chartered Accountant (South Africa).

Brahm du Plessis was appointed to the board on December 2, 2004. Advocate du Plessis has been a practicing advocate at the Johannesburg Bar since 1987, specializing in intellectual property law. Prior to that he was a senior lecturer in Roman-Dutch Law at the University of Cape Town. He was a founder member of the CDRT (Community Dispute Resolution Trust) and is past chairman of the Johannesburg branch of NADEL. He has published a law journal article on the Contracts in Restraint of Trade in Roman and Roman-Dutch Law. Advocate du Plessis is a member of Advocates for Transformation and a member of the Johannesburg Bar Council. Advocate du Plessis holds Bachelor of Arts and LLB degrees from the University of Stellenbosch and an LLM degree from the University of London (LSE).

Keitumetse Matthews was appointed to the board on June 19, 2006. Ms. Matthews is a businesswoman and has been a member of Keida Children's Books CC since April 2006. Ms. Matthews was chief legal advisor for the South African Broadcasting Corporation from March 2002 to September 2005. In April 2000, she was appointed special advisor to the Minister of Communications until February 2002. Other positions that Ms. Matthews has held include that of legal advisor at Midi Television, housing lawyer at the London Borough of Lambert Legal Services and copyright lawyer at British Broadcasting Corporation. Ms. Matthews is a Barrister-at-Law and also holds a Bachelor of Arts (Honors) degree.

Mark Lamberti was appointed to the board on May 29, 2007. Mr. Lamberti is the deputy chairman of the board and chief executive officer of Massmart Holdings Limited, a company he founded 19 years ago and of which he was the largest private shareholder until recently. Mr. Lamberti stepped down as chief executive officer and was appointed non-executive chairman on July 1, 2007. Mr. Lamberti currently serves as a non-executive director of Allied Electronics Corporation Limited and Business Leadership South Africa and is co-chairman of the Consumer Goods Council of South Africa. Mr. Lamberti holds a Bachelor of Commerce degree from the University of South Africa, a Masters degree in Business Administration from the University of the Witwatersrand and is an alumnus of the Harvard Graduate School of Business Administration where he completed the Presidents Program in Leadership.

Jackie Huntley was appointed to the board on September 20, 2007. Jackie is a practicing attorney and senior partner with the law firm Mkhabela Huntley Adekeye Inc. In 1999 she established a black-woman-led law firm Huntley Inc., and in 2006 Huntley Inc. merged with Mukwevho Mkhabela Adekeye Incorporated to form Mkhabela Huntley Adekeye Inc. as one of the major black law firms in South Africa. She joined Gold Fields of South Africa Limited in 1990 as a legal advisor in the commercial law department, thereafter joined Nedcor Bank Limited in 1993 and spent four years, three years as a legal advisor and one year in the credit department. Jackie has extensive experience in Commercial and Corporate law, including Telecommunications Law. She also worked extensively in low cost housing, having advised the South African Department of Housing and Institutions in the housing sector on housing policy and legal aspects of housing. Jackie holds BProc, Bachelor of Laws degrees and a Management Advanced Programme Certificate from the University of the Witwatersrand and she is an admitted attorney of the High Court of the Republic of South Africa.

Dr. Ekwow Spio-Garbrah was appointed to the board on September 20, 2007. He is the chief executive officer of the London-based Commonwealth Telecom Organisation, a 100 year old inter-governmental organization, of which South Africa is a member. He was Ghana's Minister of Communication from July 1997 to December 1998 and Minister of Education from December 1998 to January 2001, and Ambassador of Ghana to the USA and Mexico from June 1994 to June 1997. He has served as acting Chairman of Ghana's National Communications Authority from July 1997 to December 1998, first Chairman of Ghana's VAT Service Board from 1997 to 1998 and was a member of the Governing Board of UNESCO in Paris. Previously, he was a senior official of the African Development Bank, the World Bank Group, Southwestern Bell (USA) and Hill and Knowlton (USA). He holds a BA (Hons), English, from the University of Ghana, a Graduate Certificate in International Banking from the New York University, a Graduate Diploma, in Journalism and Communications and an M.A in International Affairs from Ohio University and was awarded an LLD (Honoris Causa) by Middlebury University, USA.

Dr. Victor Lawrence was appointed to the board on September 20, 2007. Dr Lawrence is an industry leader in digital communications research and development, an entrepreneur, an active member of engineering professional organizations, an author, and a teacher who has extensive international experience. Dr Lawrence is the Charles W Bachelor Chair Professor of Electrical and Computer Engineering and Associate Dean for Special Programs at Stevens Institute of Technology. He is also the founding Director of the "Intelligent Networked Systems Center", INetS. Dr Lawrence holds BSc, MSc and Ph.D degrees in Electrical and Computer Engineering from the University of London in the United Kingdom.

Athol Rhoda was appointed to the board on March 5, 2008. Mr. Rhoda is a qualified Chartered Accountant (South Africa) and a registered accountant by profession and has been a member of the South African Institute of Chartered Accountants since 1986. He was the Executive Head of Finance: AngloGold South Africa Operations from 1991 to 2001, and he also served as a non-executive director of Teba Bank from 2000 to 2001, director of SCMB, as well as the managing director of Diners Club International from 2001 to 2003. Mr Rhoda has been a director of the Public Investment Corporation since September 2007.

Alternate directors of Telkom

On April 22, 2008, B Molefe was appointed as alternate director to AG Rhoda, after having previously served as a member of the board. On July 3, 2008 AG Rhoda resigned as a director and was replaced by B Molefe with immediate effect.

Senior management of Telkom

With effect from November 1, 2007, Telkom revised its top management structure to align the structure to better match its current business needs. The revised structure is designed to facilitate faster decision-making and more effective execution, smoother integration of various operating entities, and ensure that multi-national and wholesale customers are better served through appropriate channels. On November 22, 2007, the board announced the appointment of Reuben September as chief executive officer. In appointing the chief executive officer, the board followed a rigorous evaluation process, including international benchmarking and consultation with the Department of Communications, the latter a requirement specified by Telkom's articles of association. In addition, on November 1, 2007, Motlatsi Nzeku was appointed as chief of operations, Thami Msimango was appointed as chief of global operations and subsidiaries, Charlotte Mokoena was appointed as chief of human resources and Ouma Rasethaba was appointed as chief of corporate governance. Deon Fredericks was appointed acting chief of finance on November 1, 2007 and Naas Fourie was appointed as chief of strategy on April 1, 2008.

The following are members of senior management of Telkom as of March 31, 2008:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Year of employment</u>
Reuben September ⁽¹⁾	1957	Chief Executive Officer	1977
Deon Fredericks	1960	Acting Chief of Finance	1993
Motlatsi Nzeku	1961	Chief of Operations	1994
Thami Msimango	1966	Chief of Global Operations and Subsidiaries	1984
Naas Fourie	1959	Chief of Strategy	1994
Charlotte Mokoena	1965	Chief of Human Resources	2002
Ouma Rasethaba	1960	Chief of Corporate Governance	2006

Note:

(1) Biography set forth above.

The business address of each of Telkom's senior management is Telkom Towers North, 152 Proes Street, Pretoria, South Africa 0002.

Deon Fredericks was appointed as acting chief financial officer on November 1, 2007.

Previously he served as Telkom's group executive of corporate finance accounting services and as chief accountant from November 2004 to November 2007. He originally joined Telkom SA Limited in 1993 as a senior manager in internal audit and has held several executive positions in the various facets of finance. He is a Chartered Accountant (South Africa) and a member of the Chartered Institute of Management Accountants (UK). Mr. Fredericks also holds a Bachelor of Commerce (Honours) degree in Business Management. He also serves as a director of Vodacom, TDS Directory Operations, Multi-Links, Africa Online and Telkom Media. He also serves on the audit committee of Vodacom, TDS Directory Operations and Multi-Links.

Motlatsi Nzeku was appointed chief information officer in March 2006. Previously, he was group executive of procurement since November 2004 and managing executive of customer services from April 2001 to October 2004. He holds a Bachelor of Science in Mathematics and Physics and a Bachelor of Engineering degree.

Thami Msimango was appointed chief technical officer in September 2005 and resigned on March 31, 2007. Mr. Msimango joined Telkom in 1984 and has held a number of positions in Telkom. Previously, he was managing executive of technology and network services from July 2003 to September 2005 and executive Technology, Direction and Integration from June 2002 to June 2003. Mr. Msimango has been involved in the information and communication technology sector for the past 22 years beginning his career in the former Department of Posts and Telecommunications in 1984. Mr. Msimango has taken a number of management programs at various higher education institutions. Mr. Msimango is a non-executive director of Telkom Media, Africa Online and Multi-Links.

Naas Fourie was appointed as chief of strategy on April 1, 2008 after having acted in the position from November 2007. Mr. Fourie joined Telkom in 1994 and has held a number of positions in Telkom. Previously, he was managing executive of commercial services from April 2005 to October 2007 and executive of marketing services from April 1999 to March 2005. Mr. Fourie holds a Bachelor of Arts, Bachelor of Divinity and Bachelor of Accounting Science (Honours) degree and completed the advanced executive program of the Kellogg School of Business. Mr Fourie is a director of Swiftnet and alternate director of Vodacom.

Charlotte Mokoena was appointed as chief of human resources from November 1, 2007.

Previously, she was group executive of human resources from December 2002 to October 2007, group executive of the Telkom Center for Learning from May 2002 to November 2002 and organizational capability manager for Coca-Cola Africa from November 2001 to April 2002. She holds a Bachelor of Arts Honours degree in Human resources development from the Johannesburg University, a Bachelor of Social Sciences from North West University and a post-graduate diploma in training and performance management from Leicester University.

Ouma Rasethaba was appointed as chief corporate affairs officer on November 1, 2007.

She joined Telkom in February 2006 serving as group executive of regulatory and public policy. Prior to joining Telkom she practiced as an advocate of the High Court of South Africa. She also held the position of special director of Public Prosecutions at the National Prosecuting Authority from February 2000 to January 2006. She holds a Bachelors degree in law (B.Proc.) from the University of the North, an Honours degree in law (LLB) from the University of the Witwatersrand, a Masters degree in law (LLM) from the University of Pretoria as well as a Higher Diploma in Company Law from the University of the Witwatersrand. She is non-executive director and chairman and member of the audit committee of TDS Directory Operations (Pty) Limited.

There are no family relationships between any of Telkom's directors or members of senior management.

Senior management of Vodacom

The following are members of senior management of Vodacom as of March 31, 2008:

Name	Year of birth	Position	Year of employment
Alan Knott-Craig	1952	Chief Executive Officer of Vodacom Group	1993
Leon Crouse (resigned March 31, 2008) .	1953	Chief Financial Officer of Vodacom Group	1993
Johan van der Watt (acting with effect from April 1, 2008)	1966	Acting Chief Financial Officer of Vodacom Group	1993
Shameel Aziz Joosub	1971	Managing Director of Vodacom South Africa	1994
Pieter Uys	1962	Chief Operating Officer of Vodacom Group	1993

The business address of each of Vodacom's executive officers is Vodacom Corporate Park, 082 Vodacom Boulevard, Vodavalley, Midrand, South Africa.

Alan Knott-Craig has served as a managing director of Vodacom (Pty) Limited since 1993 and chief executive officer of Vodacom Group since October 1996. Prior to 1993, Mr. Knott-Craig was the senior general manager of mobile communications at Telkom until 1993, when he left to join Vodacom. Mr. Knott-Craig holds a Bachelor of Science degree in Electrical Engineering (Cum Laude) from the University of Cape Town and a Master of Business Leadership degree from the University of South Africa and was awarded an honorary Doctorate in Business Leadership from the University of South Africa in 2006. He was inducted as one of the eight Gold Members of the GSM Association's 2001 inaugural "Roll of Honor" for his contribution to bringing mobile communications to South Africa. He serves as a Commissioner on the Presidential National Commission on Information Society & Development for ICTs. In June 2008, Alan Knott Craig announced his decision to step down as chief executive officer of the Vodacom Group effective from September 30, 2008. He is expected to remain as consulting chief executive officer until the end of the 2009 financial year.

Leon Crouse has served as chief financial officer and group finance director of Vodacom Group since October 1996. Prior to 1996, Mr. Crouse served as Vodacom's general manager of Finance since Vodacom's inception in 1993. Mr. Crouse is also a director of several Vodacom subsidiaries. Mr. Crouse holds a Bachelor of Commerce degree and a Certificate in the Theory of Accounting from the Nelson Mandela Metropolitan University of Port Elizabeth and is a Chartered Accountant (South Africa).

Johan van der Watt was appointed as acting chief financial officer of the Vodacom Group on April 1, 2008. Previously, he has served as executive director of finance of Vodacom, South Africa from April 2005 to April 2008 and as financial director of Vodacom (Pty) Limited from August 2000 to March 2005. Mr. van der Watt is a Chartered Accountant (South Africa).

Shameel Aziz-Joosub has served as managing director of Vodacom (Pty) Limited since April 2005. He has served as a director and as the managing director of Vodacom Service Provider Company (Pty) Limited since September 2000. Prior to September 2000, Mr. Aziz-Joosub worked in Vodacom's finance department since 1994 and was managing director of Vodacom Equipment Company (Pty) Limited, the former handset distribution company in the Vodacom Group, before merging it with Vodacom Service Provider Company. Mr. Aziz-Joosub also serves as director of Vodacom Group (Pty) Limited. Mr. Aziz-Joosub holds a Bachelor of Accounting Science (Honors)

degree from the University of South Africa and holds a Masters of Business Administration degree from the University of Southern Queensland, Australia, and is an Associated General Accountant and Commercial and Financial Accountant (South Africa).

Pieter Uys has served as chief operating officer of Vodacom Group since April 2004 and managing director of Vodacom (Pty) Limited from December 2001 to March 2005. Mr. Uys was appointed as chief executive officer of Vodacom Group effective October 1, 2008. Mr. Uys holds a Bachelor of Science degree in Engineering and a Masters degree in Engineering from the University of Stellenbosch and a Master of Business Administration degree from the Stellenbosch Business School. Mr. Uys joined Vodacom in 1993 as a member of the initial engineering team.

Reserved matters

Pursuant to Telkom's articles of association, for so long as the Government is a significant shareholder, neither Telkom nor any of its subsidiaries may take action with respect to certain reserved matters unless authorized by the board, if, and to the extent that, the matters are not within the scope of the exclusive powers and authority delegated to the operating committee, which has been replaced by the executive committee, referred to below. In addition, the authorizing resolution of the board relating to any Government reserved matter must have received the affirmative vote of at least two of the directors appointed by the Government. The following are Government reserved matters:

- the approval or amendment of Telkom's strategic objectives or those of any subsidiary;
- any determination of or amendment to Telkom's management structure or schedule of authorizations granted by the board to management;
- prior to May 8, 2004, any determination by the board of directors with respect to the scope or revocation of the exclusive powers and authority of the operating committee or the human resources review committee referred to below, and at any time, the countermanding, amending or supplementing of any decision or action made or taken by the operating committee or the human resources review committee before May 8, 2004;
- the formation of any committee of, or the delegation of any authority to such committee, by the board of directors, other than as expressly set out in the articles of association;
- an increase or reduction in the issued share capital of Telkom or its subsidiaries;
- any issue, conversion or allotment of shares or securities by Telkom or any subsidiary;
- the approval or making of the dividend policy from time to time and the declaration or distribution of any dividends by Telkom or by its subsidiaries;
- any material change in Telkom's business or that of its subsidiaries;
- the incurrence, creation or assumption by Telkom of any indebtedness which would cause the debt/equity ratio of Telkom, or the Telkom Group on a consolidated basis, to exceed 1.00;
- any merger or consolidation involving Telkom or any transfer of any of Telkom's assets or liabilities or those of its subsidiaries where the consideration or purchase price, as the case may be, exceeds minimum thresholds;
- the execution, renewal, amendment or termination of any contract between Telkom or its subsidiaries and any shareholder who owns in excess of 10% of the ordinary shares, unless the Government has an interest in the contract in question that conflicts with the interest of Telkom or the applicable subsidiary;
- the establishment by Telkom of any subsidiary;

- any change to the name under which Telkom or any subsidiary does business;
- any change in Telkom's financial or tax year;
- any winding-up or liquidation of Telkom or any of its subsidiaries;
- after May 7, 2004 and subject to the audit and risk management committee's exclusive authority referred to below, the appointment of Telkom's auditors insofar as the South African Companies Act, 61 of 1973, requires such appointment to be made by directors;
- any material alteration of the terms of any employee share ownership scheme approved by a general meeting; and
- any change in the number of directors making up the board.

Telkom's articles of association provide that the articles relating to these reserved matters will fall away on March 4, 2011.

COMPENSATION

Compensation of directors

The following table sets forth in Rands, the cash and non-cash compensation, paid by Telkom to its executive and non-executive directors in the year ended March 31, 2008:

	Fees ZAR	Remuneration ZAR	Performance bonus ZAR	Fringe and other benefits ZAR	Total ZAR
2008					
Emoluments per director:					
Non-executive	4,632,933				4,632,933
SL Arnold	1,124,373	–	–	–	1,124,373
B du Plessis	393,967	–	–	–	393,967
TD Mahloele	357,684	–	–	–	357,684
TF Mosololi ⁽¹⁾ (resigned October 26, 2007)	174,960	–	–	–	174,960
M Mostert ⁽²⁾⁽³⁾ (resigned September 19, 2007)	229,433	–	–	–	229,433
DD Tabata (resigned September 19, 2007)	250,583	–	–	–	250,583
YR Tenza (resigned September 19, 2007)	305,633	–	–	–	305,633
PL Zim (resigned April 11, 2007)	5,333	–	–	–	5,333
PSC Luthuli	502,117	–	–	–	502,117
KST Matthews	501,217	–	–	–	501,217
MJ Lamberti (resigned June 3, 2008)	–	–	–	–	
B Molefe ⁽⁴⁾ (appointed January 30, 2008) (resigned March 5, 2008, re-appointed July 3, 2008)	20,497	–	–	–	20,497
RJ Huntley (appointed September 20, 2007)	193,833	–	–	–	193,833
Dr E Spio-Gabrah ⁽²⁾ (appointed September 20, 2007)	272,841	–	–	–	272,841
Dr VB Lawrence (appointed September 20, 2007)	286,176	–	–	–	286,176
A Rhoda ⁽⁵⁾ (appointed March 5, 2008, resigned July 3, 2008)	14,286	–	–	–	14,286
Executive	–	14,489,833	3,436,308	13,244,896	31,171,037
LRR Molotsane ⁽⁶⁾ (left the employment of Telkom on April 5, 2007)		12,036,076	–	26,124	12,062,200
RJ September ⁽²⁾⁽⁷⁾ (appointed May 8, 2007)	–	2,453,757	3,436,308	13,218,772	19,108,837
CEO	–	1,016,524	3,436,308	10,438,538	14,891,370
Acting CEO		1,437,233		2,780,234	4,217,467
Total emoluments paid by Telkom	4,632,933	14,489,833	3,436,308	13,244,896	35,803,970

Notes:

- (1) Paid to Tsogo Sun Limited.
- (2) In addition to these amounts Vodacom paid Mr. M Mostert R270,833, Dr. Spio-Gabrah R43,750 and RJ September R175,000 for fees as directors during the 2008 financial year.
- (3) In the absence of an internal corporate finance division, and pending the structuring and staffing thereof, the Telkom board resolved that it was in the best interest of the company and shareholders to deploy the highest quality skills currently resident in Telkom, to evaluate, structure and make recommendations to the board on major transactions. During the 2008 financial year Dr Mostert led all efforts in this regard and was remunerated accordingly. Moreover in compliance with the principles of good governance, the board took legal advice and established that there was no conflict of interest arising out of his involvement in the transaction evaluated.
- (4) Paid to Public Investment Corporation.
- (5) Paid to Rhoda and Associates.
- (6) Included in fringe and other benefits is a pension contribution for LRR Molotsane of R4,690 (2007: R295,462) paid to the Telkom Retirement Fund. The payment included in remuneration was made in terms of a settlement agreement between Telkom and Mr. Molotsane.
- (7) Included in fringe and other benefits is a pension contribution for RJ September of R280,261 paid to the Telkom Retirement Fund and a payment made in terms of a restraint of trade agreement.

In the year ended March 31, 2008, the aggregate consolidated compensation of Telkom's directors and senior management (29 persons, including a portion of the year for two individuals who served as acting chiefs during such time), paid or accrued, was R111 million which includes remuneration, bonuses, termination, fringe and other benefits paid to directors and members of senior management who resigned or were replaced during the year.

The Telkom Group set aside or accrued R1.6 million to provide pension, retirement and similar benefits for its directors and senior management (29 persons, including a portion of the year for two individuals who served as acting chiefs during such time) in the year ended March 31, 2008, including directors and members of senior management who resigned or were replaced during the year.

Bonus and profit sharing

Senior management and executive directors participate in the Telkom top management incentive scheme. The incentive scheme consists of a team award, which is based 70% on Telkom financial drivers and 30% on Telkom performance drivers. Payment of bonuses for the 2008 financial year took place in June 2008.

Remuneration of non-executive directors

Fees for Telkom's non-executive directors are determined by the board of directors based on market practice, within the restrictions contained in Telkom's articles of association. Telkom's non-executive directors receive no other pay or benefits other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships. The non-executive directors do not participate in the share scheme, bonus scheme or incentive plans outlined herein and are not eligible for pension scheme membership.

Loans

Telkom has not made any loans to any of its directors or senior management referred to herein.

Service agreements

Telkom has a service agreement with Reuben September, which has a three year term, expiring November 30, 2010, with an annual one year renewal, subject to either party tendering notice of their intention to terminate the agreement on or before June 30th of the applicable year. All other members of the executive committee have indefinite service employment contracts with a three month notice period by either party.

Retention and restraint agreements

Restraint agreements have been signed with the chief executive officer and with four of the chief officers, which prevents them from competing within the communications industry for two years from last day of employment. In addition, three of the chief officers have retention agreements that will lapse on October 31, 2011.

Incentive plans

At Telkom's Annual General Meeting held on January 27, 2004, Telkom's shareholders approved a conditional share plan for all employees. A maximum of 22,281,272 ordinary shares were permitted to be made available for purposes of the plan. As of March 31, 2008, 18,004,284 ordinary shares were allocated under this plan, representing approximately 3.5% of Telkom's issued ordinary shares. No additional shares will be granted in terms of the share plan after March 31, 2008. Allocation to management employees in terms of this plan shall not exceed 2% of Telkom's issued ordinary share capital. The remaining 2% is reserved for the remainder of the staff. No one participant in the plan may acquire more than 0.05% of Telkom's issued ordinary share capital.

The board may determine the maximum number of shares that will be awarded to each participant in a conditional contract. Each conditional contract obligates Telkom to allot and issue to the employee or procure the transfer to the employee, free of cash, the number of shares awarded to the employee, subject to certain performance criteria applicable to him or her being met within a specified period. The number of shares ultimately awarded to the employee, however, is dependent upon the extent to which the employee meets certain performance criteria and, in any event, must not exceed the number awarded. For a management employee, the performance criteria must be met over three years. For a non-management employee, the performance criteria must be met for one-third of his or her shares at the end of two years, for the next third at the end of three years and for the last third at the end of four years, each from the date of his or her conditional contract. At the end of these periods, the rights of the employees will vest, provided that each performance criterion has been met and the employee is still a Telkom employee. Subject to the board's discretion, if the employment is terminated due to death, other than suicide, workforce reduction where he or she does not receive a voluntary severance package, outsourcing, normal retirement or workforce reduction due to ill health, his or her rights will remain unaffected; otherwise, the employee will lose his or her rights to acquire any shares apart from the rights that have already vested. Subject to the board's discretion, the board may decide to make a cash payout based on certain criteria for employees who accept voluntary service packages pursuant to the workforce reduction program. Rights to acquire shares that are lost are available for reissue under the conditional share plan. A Telkom employee cannot receive any dividends for awarded shares or be entitled to vote, with respect to awarded shares until their rights to shares are vested. In addition, a Telkom employee may not assign any of his or her rights or obligations under this plan.

On March 17, 2004, the Telkom board of directors approved guidelines for the allocation of shares. The first grant of 3,046,242 shares was made based on the following:

- the Telkom share price on the JSE based on the last ten trading days prior to March 30, 2004; and
- the Telkom's final financial results for the 2004 financial year as measured by the team award.

For officers, executives and managers, the number of ordinary shares was based on a percentage of the individual's total remuneration package and the individual's performance assessed through Telkom's performance enhancement process. The following illustrates how individual performance influences the number of shares:

Performance	% award
Did not meet targets	0%
Met all targets	100%
Exceeded all targets	100%+*

* Subject to board discretion

For employees in Telkom's collective bargaining unit, the number of ordinary shares was based on a percentage applied to the weighted average remuneration per job level, regardless of the individual's performance as assessed through Telkom's performance and development management system. However, the number of ordinary shares depended on a sliding scale of the Telkom financial performance, as measured by Telkom's gain-sharing plan. The following table illustrates the sliding scale:

Overall % achievement of Telkom financial targets	% award
Less than 90%	0%
Between 90% and 95%	50%
Between 95.1% and 99.9%	75%
100% and above	100%+*

* Subject to board discretion

On June 23, 2005, the Telkom board of directors approved the second grant of 2,024,465 shares under the conditional share plan. The second allocation was made based on the following:

- the Telkom share price on the JSE based on the last ten trading days prior to the allocation date of June 1, 2005;
- the individual performance assessment of employees on the management levels for the 2005 financial year;
- the total remuneration packages of employees as at April 1, 2005; and
- Telkom's final financial results for the 2005 financial year.

The Telkom board approved the third grant of 1,825,488 shares with effect from June 2, 2006 to employees pursuant to the Telkom conditional share plan. The third allocation was made based on the following:

- the Telkom share price on the JSE based on the last ten trading days prior the allocation date of June 1, 2006;
- the individual performance assessment of employees on the management levels for the 2006 financial year;
- the total remuneration packages of employees as of April 1, 2006; and
- Telkom's final financial results for the 2006 financial year.

On June 2, 2006, the board of directors also approved, pursuant to the conditional share plan, the vesting of one third of the 2004 financial year conditionally allocated shares for non-management employees, which was two years after the initial allocation. As a result, 450,505 ordinary shares granted for the 2004 fiscal year vested.

On June 8, 2007, the board of directors also approved, pursuant to the conditional share plan, the vesting of a further one third of the 2004 financial year conditionally allocated shares for non-management employees, which was three years after the initial allocation, one third of the 2005

financial year conditionally allocated shares for non-management employees, which was two years after the initial allocation, as well as the 2004 financial year conditionally allocated shares for management employees, which was three years after the initial allocation. As a result, approximately 1.7 million ordinary shares granted for the 2004 and 2005 fiscal years, vested.

On September 4, 2007, the board of directors approved the fourth grant of 6,089,810 ordinary shares pursuant to the conditional share plan with a grant date of September 27, 2007 in respect of the 2007 financial year. In addition, on September 4, 2007, the board of directors approved an enhanced allocation for the third grant in respect of the 2006 financial year of 4,966,860 ordinary shares pursuant to the conditional share plan, also with a grant date of September 27, 2007. The enhanced grant in respect of the 2006 financial year will vest at the same time and pursuant to the same conditions as the third grant in respect of the 2006 financial year. The vesting period for the third and fourth grants in respect of the 2006 and 2007 financial years, including the enhanced third grant in respect of the 2006 financial year, were also amended compared to the previous grants. For the grants awarded in respect of the 2004 and 2005 financial years to non-management employees, shares vested as follows: 0% in year one and 33% in each of the three years thereafter. The shares allocated in respect of the 2006 and 2007 financial years to non-management employees and for all management employees will now all vest fully at the end of the third year from the date of grant.

BOARD PRACTICES

Corporate governance statement

The board is committed to ensuring that the affairs of Telkom are conducted with integrity and in accordance with principles set out in the King Report on Corporate Governance 2002, or King II, and the Sarbanes Oxley Act of 2002.

Compliance with the King Code and JSE Listings Requirements

By virtue of its listing on the JSE, Telkom is obliged to comply with the Code of Corporate Practices and Conduct contained in King II and in accordance with the new JSE Listings Requirements which came into effect on September 1, 2003. Telkom is required to disclose the extent of its new compliance with King II and provide reasons for non-compliance.

Telkom complies in all material respects with the principles of King II. While it acknowledges the importance of good governance, the board is aware that Telkom does not strictly comply with certain principles set out in King II. These areas of non-compliance stem mainly from certain provisions in Telkom's articles of association framed to safeguard the interests of the two controlling shareholders, that at the time of the listing were the Government of the Republic of South Africa and Thintana Communications. In November 2004, Thintana Communications announced that it sold its entire remaining shareholding in Telkom, 15.1%, together with the class B share, to the Public Investment Corporation and Black Ginger. We have been informed that the Public Investment Corporation's shareholding fell below 15% of Telkom's issued ordinary shares. As a result, it is no longer a "significant shareholder". The Government is now the sole "significant shareholder." The Government's reserved matters as a "significant shareholder" holding the class A ordinary shares were unaffected by the sale by Thintana Communications of its entire shareholding in Telkom. Most of the areas of non-compliance will be resolved by no later than March 5, 2011, when the provisions of Telkom's articles of association resulting in non-compliance with King II fall away or earlier if the "significant shareholders" shareholding falls below certain stipulated levels.

The board of directors

The board of directors was comprised of one executive and nine non-executive directors and had one vacancy as of June 30, 2008. The Government and Black Ginger, a wholly owned subsidiary of the Public Investment Corporation, are the beneficial holders of the class A and class B ordinary shares, respectively. Based on their beneficial ordinary shareholding and their holding of the class A and class B shares, the Government is entitled to appoint five directors, including two executive directors, and the Public Investment Corporation is entitled to appoint one executive or non-executive director, to the board, as of June 30, 2008.

The non-executive directors have a wide range of skills and significant commercial experience, that enable them to bring independent judgment to bear on the board's deliberations and decisions. No single director or block of directors dominates decision making at board meetings.

The roles of chairman and chief executive officer do not reside in the same person. The chairman is a non-executive director appointed by the class A shareholder, the Government, in consultation with the class B shareholder. The chief executive officer is appointed by the board on a renewable service contract, in consultation with each significant shareholder.

The board meets at least once a quarter, including for sessions devoted to discussing strategy and business planning. Extraordinary board meetings are convened when necessary to deliberate on issues that require board resolutions between scheduled meetings. Certain members of senior management are in attendance at board meetings. Other members of management are periodically invited to make presentations on particular issues of interest to the board.

Board papers and other relevant documentation are timeously circulated, giving board members sufficient time to consider the issues on the agenda, thus enabling them to make informed decisions on the issues at hand.

Telkom has a formal induction program for newly appointed directors and specific training is provided for audit committee members. The induction of newly appointed directors is conducted by the chairman and chief executive officer with input from the company secretary. Where a newly appointed director has no or limited board experience, the induction program is structured to meet the individual director's specific needs.

In terms of Telkom's articles of association, board decisions on certain specified matters require the affirmative vote of at least two of the class A shareholder directors, appointed by the Government.

The board encourages attendance at annual general meetings by the directors and members of management. A majority of directors, one of whom must be a representative of the class A Ordinary Share is required for a quorum for board meetings.

A number of standing committees have been established to assist the board and the directors in the effective discharge of their responsibilities. Where deemed necessary, special committees are established by the board to consider specific issues and make recommendations to the board. Board and special committees are free to take independent professional advice at the cost of Telkom in carrying out their delegated duties. During the 2008 financial year, the board established three new committees, namely a nominations committee, a strategy committee and an investment committee.

Directors' attendance of board meetings

Four scheduled board meetings and 16 special meetings were held during the 2008 financial year. The following table presents the possible meetings based on the appointment and resignation of members.

	Scheduled		Special	
	Number of	Attendance	Number of	Attendance
	meetings ⁽¹⁾		meetings ⁽¹⁾	
Non-executive				
ST Arnold (Chairman)	4	4	16	16
TD Mahloele (resigned January 30, 2008)	2	1	16	14
M Mostert (resigned September 19, 2007)	1	1	8	8
DD Tabata (resigned September 19, 2007)	1	1	8	7
YR Tenza (resigned September 19, 2007)	1	1	8	7
B du Plessis	4	4	16	15
TF Mosololi (resigned October 26, 2007)	1	1	9	5
PL Zim (resigned April 11, 2007)	0	0	1	0
PSC Luthuli	4	3	16	13
KST Matthews	4	4	16	15
MJ Lamberti (appointed May 29, 2007) (resigned June 3, 2008)	4	4	12	8
RJ Huntley (appointed September 20, 2007)	3	3	8	8
Dr E Spio-Garbrah (appointed September 20, 2007)	3	3	8	6
Dr VB Lawrence (appointed September 20, 2007)	3	3	8	8
AG Rhoda (appointed March 5, 2008, resigned July 3, 2008)	2	1	0	0
B Molefe (appointed January 30, 2008, resigned March 5, 2008, re-appointed July 3, 2008)	1	0	0	0
Executive				
LRR Molotsane (left the employment of Telkom on April 5, 2007)	0	0	0	0
RJ September (appointed May 8, 2007)	4	4	15	15

Note:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

Executive committee

The chief executive officer has the power of authority to, among other things:

- implement approved business plans, annual budgets and all other matters and issues relating to the achievement of Telkom's obligations under its licenses, including without limitations network expansion, equipment procurement, tariff setting and packaging, customer service and marketing; and
- prepare, review and recommend to the board the annual budgets and any amendments thereto.

The chief executive officer shall, in carrying out the powers set out above, be assisted by an executive committee. The chief executive officer is the chairman of the executive committee. The executive committee consists of seven members.

Decisions at meetings of the executive committee are taken by a majority vote of the members. In the event of an equality of votes, the chairman of the committee has a casting vote.

The following were the members of the executive committee as of June 30, 2008:

- RJ September (Chairman);
- DJ Fredericks;
- MJ Nzeku;
- TG Msimango;
- IM Fourie;
- CK Mokoena; and
- GJ Rasethaba.

Members' attendance of executive committee meetings

Executive committee meetings are held regularly as and when specific business issues arise.

Audit and risk management committee

The audit and risk management committee is to consist of not less than three non-executive directors.

A non-executive director who is not the chairman of the board chairs the committee. No member of the audit and risk management committee may, other than in his or her capacity as a member of that committee, the board or any other committee of the board, accept any consulting, advisory or other compensatory fee from Telkom or any subsidiary of Telkom or be an affiliated person of Telkom or any subsidiary or vendor of Telkom. See Directors' Interest in note 39 of the Consolidated Financial Statements.

The responsibilities of the audit and risk management committee include, among other things, the following:

- consider and make recommendations for the appointment, compensation, retention and oversight of any registered public accounting firm engaged for the purpose of preparing and issuing an audit opinion or performing other audit, review or attest services for the listed issuer, and each such registered public accounting firm shall report directly to the audit and risk management committee;
- evaluate the independence and effectiveness of the external auditor(s) within the meaning of the rules and regulations of the U.S Securities and Exchange Commission and the New York Stock Exchange and other applicable rules and regulations and consider whether any non-audit services rendered by such auditors substantively impair their independence;

- subject to any exceptions permitted by the rules and regulations of the U.S Securities and Exchange Commission, pre-approve all permissible audit and non-audit services to be provided by the external auditors; provided, however, that the audit and risk management committee may establish pre-approval policies and procedures as permitted by the rules and regulations of U.S Securities and Exchange Commission so long as such policies and procedures are detailed as to the particular service and the audit and risk management committee is informed of each service and such policies and procedures do not include delegation of the audit and risk management committee's responsibilities under the U.S Securities Exchange Act of 1934 to management;
- discuss and review, with the external auditor(s) before the audit commences, the auditor(s) engagement letter, the terms, nature and scope of the audit function and the audit fee and where more than one auditor are involved, the maintenance of a professional relationship and co-ordination between them;
- make suggestions on problem areas that the audit should address;
- consider any accounting treatments, significant unusual transactions or accounting judgments, that could be contentious;
- consider whether any significant ventures, investments or operations are not subject to external audit;
- review the overall audit role, minimize duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;
- obtain assurance from the external auditor(s) that adequate accounting records are being maintained;
- obtain and review with the lead audit partner and a more senior representative of the independent auditor, annually or more frequently as the audit and risk management committee considers appropriate, a report by the external auditor describing: any material issues raised by the most recent internal quality-control review, or peer review, of the external auditor, or by any inquiry, review or investigation by governmental, professional or other regulatory authorities, within the preceding five years, in respect of independent audits carried out by the external auditor, and any steps taken to deal with these issues;
- pre-approve the hiring or appointment to the board of directors of any current or former partner, principal, shareholder or professional employee of the Company's external audit firm or any close family member thereof, all of which shall be in accordance with the rules and regulations of the U.S Securities and Exchange Commission. In addition, the audit and risk management committee shall pre-approve the hiring of any employee or former employee of the external auditors for group management positions within the company, regardless of whether that person was a member of the company's audit team;
- liaise with and monitor the activities of other audit committees in the Telkom Group;
- review and evaluate the lead partner of the external audit firm;
- ensure the rotation of the lead audit partner and concurring partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself;
- review with management and the external auditors the results of the audit, including any problems or difficulties encountered and management's response. This review will include any restrictions on the scope of the external auditor's activities or on access to requested information, and any significant disagreements with management;

- examine and review the annual financial statements, including the company's disclosures under "Operating and Financial Review and Prospects", the interim reports, the accompanying reports to shareholders, the preliminary announcement of results and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the board, focusing particularly on:
 - tax and litigation matters;
 - any changes in accounting policies and practices;
 - major judgmental areas;
 - significant adjustments resulting from the audit;
 - the basis on which the company has been determined a going concern;
 - capital adequacy;
 - compliance with accounting standards, local and international, compliance with stock exchange and legal requirements;
 - the efficiency of major adjustments processed at year end;
 - compliance with the financial conditions of loan covenants;
 - reviewing special documents such as prospectuses as and when prepared;
 - earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
 - off balance sheet structures;
- review with management, and any outside professionals as the audit and risk management committee considers appropriate, the effectiveness of the company's disclosure controls and procedures;
- monitor the effective functioning of internal audit, ensuring that the roles and functions of the external audit and internal audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of the company's systems of internal control and reporting, including:
 - evaluating the effectiveness of internal audit;
 - reviewing the internal audit function's compliance with its mandate as approved by the audit and risk management committee;
 - reviewing the effectiveness of the company's systems of internal control, including internal financial control and business risk management and maintaining effective internal control systems;
 - considering the appointment, dismissal or re-assignment of the head of the internal audit function;
 - reviewing and approving the internal audit charter, internal audit plans and internal audit's conclusions with regard to internal control;
 - reviewing the adequacy of corrective action taken in response to significant internal audit findings;
 - reviewing significant matters reported by the internal audit function;
 - assessing the adequacy of performance of the internal audit function, and the adequacy of available internal audit resources;
 - reviewing the co-operation and co-ordination between the internal and external audit functions and coordinating the formal internal audit work plan with external auditors to avoid duplication of work;

- reviewing significant differences of opinion between management and the internal audit function;
- monitoring the maintenance of proper and adequate accounting records;
- evaluating the independence and effectiveness of the internal auditors;
- monitoring the overall operational and financial reporting environment;
- monitoring the systems to safeguard the company's assets against unauthorized use or disposal;
- requesting investigations into matters within its scope, for example, evaluations of the effectiveness of the company's internal control, cases of employee fraud, misconduct or conflict of interest; and
- reviewing the company's policies in respect to risk assessment and risk management; In this regard the audit and risk management committee will consider and review the findings and recommendations of the risk and safety, health and environmental committees insofar as they are relevant to the functions of the audit and risk management committee;.
- ensure compliance with legal and regulatory requirements to the extent that it may have an impact on financial statements. The audit and risk management committee shall receive reports by the disclosure committee and the risk committee on legal and regulatory compliance and shall:
 - review with management, and any internal or external counsel as the audit and risk management committee considers appropriate, any legal matters, including the status of pending litigation, that may have a material impact on the company and any material report's or inquiries from regulatory or governmental agencies;
 - review with the general counsel the adequacy and effectiveness of the company's procedures to ensure compliance with its legal and regulatory responsibilities. The audit and risk management committee shall also review the legal and compliance function's organization, responsibilities, plans, results, budget and staffing;
 - establish procedures for (i) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, auditing matters or potential violations of law and (ii) the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters or potential violations of law; and
 - the audit and risk management committee shall obtain reports from management, the internal auditor and the independent auditor regarding compliance with all applicable legal and regulatory requirements, including the Foreign Corrupt Practices Act;
- monitor the effective functioning of enterprise risk management ensuring that the roles and functions of the risk officer are clarified and coordinated to provide an objective overview of the operational effectiveness of the company's systems of internal control, reporting and risk management. This includes:
 - using the risk management strategy to prioritize and direct the audit effort;
 - evaluate and review the effectiveness of enterprise risk management and risk control measures;
 - reviewing the enterprise risk management's functions and compliance with its mandate as approved by the audit and risk management committee;
 - reviewing and approving the enterprise risk management charter and enterprise risk management plans;

- monitor the adequacy of corrective action taken in response to significant risks;
- assessing the adequacy of available enterprise risk management resources;
- monitoring the maintenance of proper and adequate risk records;
- reviewing significant differences of opinion between management and enterprise risk management functions;
- monitoring the systems to safeguard the company's assets against those risks that might have a negative impact on Telkom's business;
- reviewing the company's policies in respect to enterprise-wide risk management (risk assessment and risk financing);
- evaluate the planned risk assessments to be undertaken so as to pro-actively identify, evaluate risks and exposures as well as opportunities that could impact or support the achievement of Telkom's objectives; and
- review the effectiveness of risk awareness strategies; and
- annually assess the effectiveness of the audit and risk management committee and its members.

Telkom's audit and risk management committee adopted a pre-approval policy for services by external auditors, which does not allow for certain services, including bookkeeping, financial system design, valuation services, actuarial services, internal audit outsourcing services and legal services not related to the audit. The committee also pre-approves proposed audit related services, tax services and other permissible services. The pre-approval policy requires all auditing and non audit services provided by Telkom's external auditors to be pre-approved by the audit and risk management committee. The chairman of the audit and risk management committee is the primary member of the audit and risk management committee that has the authority to pre-approve audit and non audit services outside of the meetings and, in his absence, any member of the audit and risk management committee.

The following are the members of the audit and risk management committee as of June 30, 2008:

- PSC Luthuli (Chairman);
- RJ Huntley; and
- AG Rhoda (resigned July 3, 2008).

As indicated above, Telkom's audit and risk management committee is to consist of not less than three non-executive directors. As a result of the resignations of MJ Lamberti on June 3, 2008 and AG Rhoda on July 3, 2008 from the Telkom board of directors and all committees thereof, Telkom's audit and risk management committee currently consists of two non-executive directors, one of whom is a representative of the Government of South Africa. The board of directors is currently assessing the composition and membership of all the committees of its board of directors, including the audit and risk management committee, and intends to address any instances of non-compliance with their charters by the end of the 2008 calendar year. Telkom's current articles of association requires shareholders to approve the appointment of any members of Telkom's board of directors, other than the directors nominated by the class A and class B shareholders, and Telkom's class A and class B shareholding rights granted in its current shareholders agreement that will expire in March 2011 restricts the board's ability to appoint independent members. Telkom's board of directors expects to request a special general meeting in which it intends to propose an amendment to its current articles of association to permit the board of directors to appoint independent directors when a casual vacancy occurs, whom can then be retired and made available for re-election at the first annual general meeting following their appointment.

In addition, AG Rhoda, who served on the Telkom audit and risk management committee from March 5, 2008 to July 3, 2008 was a representative of the Public Investment Corporation, an investment management company wholly owned by the South African Government. Because the Public Investment Corporation directly beneficially owned 6.6% of Telkom's issued and 6.8% of Telkom's outstanding shares and Black Ginger, a wholly owned subsidiary of the Public Investment Corporation owned 9.0% of Telkom's issued and 9.3% of Telkom's outstanding ordinary shares and the class B ordinary share, AG Rhoda's appointment to the Telkom audit and risk management committee may have violated the New York Stock Exchange rules and Rule 10A-3(b)(1) of the Exchange Act that require that each member of the audit committee of a listed issuer to be independent. Any such violation was corrected by AG Rhoda's resignation on July 3, 2008.

Telkom's board of directors has determined that the chairman of its audit committee, Mr. Sibusiso Luthuli, is the audit committee financial expert within the meaning of Item 16A. (b) and (c) of the requirements of Form 20-F of the SEC. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation, any duties, obligations or liability that are greater than the duties, obligations or liabilities imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. Mr. Luthuli is a qualified Chartered Accountant (SA).

The external auditors are invited when appropriate to attend the audit and risk management committee meetings.

Members' attendance of audit and risk management committee meetings

Four scheduled audit and risk management committee meetings and one special meeting were held during the 2008 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of		Number of	
	meetings	(1) Attendance	meetings	(1) Attendance
Existing members				
PSC Luthuli (Chairman)	4	4	1	1
MJ Lamberti (appointed May 29, 2007 and resigned June 3, 2008)	4	4	1	1
RJ Huntley (appointed September 20, 2007)	2	1	1	1
AG Rhoda (appointed March 5, 2008, resigned July 3, 2008)	1	0	0	0
Resignations				
YR Tenza (resigned September 19, 2007)	2	2	1	1
M Mostert (resigned September 19, 2007)	2	0	1	0
TF Mosololi (resigned October 26, 2007)	2	1	1	0

Note:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

Nominations committee

On September 4, 2007, the Telkom board of directors established a nomination committee. The nominations committee consists of a minimum of three members and is chaired by an independent non-executive director. The committee makes recommendations to the board on the composition of the board, and the balance between executive, non-executive and independent non-executive directors with respect to aspects of diversity and experience. The committee is responsible

for identifying and nominating candidates and formulating succession plans for the approval of the board. In addition, the committee recommends to the board, the continuation of services of any director who has reached the retirement age, as well as directors who are retiring by rotation, for re-election.

The following are members of the nominations committee as of June 30, 2008:

- PSC Luthuli (Chairperson);
- ST Arnold; and
- one vacancy

Members' attendance of nominations committee meetings

Three scheduled nominations committee meetings and one special meeting were held during the 2008 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of meetings	(1) Attendance	Number of meetings	(1) Attendance
Existing members				
PSC Luthuli (Chairperson)	3	3	1	1
ST Arnold	3	3	1	1
MJ Lamberti (resigned June 3, 2008)	3	3	1	1

Note:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

Strategy committee

On November 16, 2007, the Telkom board of directors established a strategy committee. The strategy committee consists of a minimum of three members.

The committee assists the board with Telkom's strategies and resulting financial performance. The functions of the committee, include, among other things, the following:

- verifying that management is fully conversant with the theory and principles of strategic management;
- ensuring that management annually researches all stakeholders to determine their satisfaction with and expectations from the company;
- ensuring that management provides a comprehensive internal review of the resources, capabilities and competencies of the Telkom Group;
- monitoring the strategic compliance of annual business plans and budgets for existing operations and assets as well as for all proposed acquisitions and investments;
- monitoring the efficiency and success of strategy implementation; and
- ensuring that the board's strategic questions and concerns are addressed by management.

The following are members of the strategy committee as of June 30, 2008:

- Dr E Spio-Garbrah (Chairperson);
- RJ September; and
- Dr VB Lawrence.

Members' attendance of strategy committee meetings

Two scheduled strategy committee meetings were held during the 2008 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of		Number of	
	meetings	(1) Attendance	meetings	(1) Attendance
Existing members				
Dr E Spio-Gabrah (Chairperson)	2	2	0	0
RJ September	2	2	0	0
MJ Lamberti (resigned June 3, 2008)	2	2	0	0
Dr VB Lawrence	2	2	0	0

Note:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

Investment committee

On November 16, 2007, the Telkom board of directors established an investment committee. The investment committee consists of a minimum of five members.

The responsibilities of the committee include, among other things, the following:

- to examine, review and recommend investment policy, criteria and parameters in the context of the Telkom Group's targeted growth, debt levels and returns;
- to examine, review and recommend potential new investments proposed by executive management with due regard to the Telkom Group's strategic and financial objectives, the structural basis of integration and the operational and managerial demands occasioned by the investment;
- to monitor the performance of existing investments against investment criteria and pre-investment assumptions;
- to examine and review recommendations by executive management to dispose of investments;
- to monitor and make recommendations of the Telkom Group's financial facilities and financing structures; and
- to make recommendations, pursuant to the above, on the selection of merchant banks and professional advisors.

The following are members of the investment committee as of June 30, 2008:

- RJ Huntley (Acting chairperson);
- PCS Luthuli;
- RJ September;
- DJ Fredericks; and
- one vacancy.

Members' attendance of investment committee meetings

One scheduled investment committee meeting was held during the 2008 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of meetings ⁽¹⁾	Attendance	Number of meetings ⁽¹⁾	Attendance
Existing members				
RJ Huntley (Acting chairperson)	1	1	0	0
PSC Luthuli	1	1	0	0
MJ Lamberti (resigned June 3, 2008)	1	1	0	0
RJ September	1	1	0	0
DJ Fredericks	1	1	0	0

Note:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

Human resources review and remuneration committee

The human resources review and remuneration committee consists of a majority of non-executive directors and was chaired by Mr. MJ Lamberti until his resignation on June 3, 2008 and by Mr. B du Plessis thereafter. The human resources review and remuneration committee reviews the terms upon which Telkom's executive directors and senior management are employed and compensated and upon which Telkom's non-executive directors and executive directors are compensated and make recommendations to the board with respect to such matters. Actions of the human resources review and remuneration committee must be approved by a majority vote of its members. In the event of a tie, the chairperson of the human resources review and remuneration committee shall have a casting vote.

The following are members of the human resources review and remuneration committee as of June 30, 2008:

- B du Plessis (Chairperson);
- KST Matthews; and
- one vacancy.

Members' attendance of human resources review and remuneration committee meetings

Six scheduled human resources review and remuneration committee meetings and two special meetings were held during the 2008 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	<u>Scheduled</u>		<u>Special</u>	
	<u>Number of</u>	<u>(1) Attendance</u>	<u>Number of</u>	<u>(1) Attendance</u>
	<u>meetings</u>		<u>meetings</u>	
Existing members				
KST Matthews	6	6	2	2
B du Plessis (Chairperson with effect from June 6, 2008)	6	6	2	2
Ex-officio non-voting member				
CK Mokoena (Chief of Human Resources)	5	5	1	1
RJ September (appointed April 5, 2007)	5	4	1	1
Resignations				
LRR Molotsane (left the employment of Telkom on April 5, 2007)	0	0	0	0
DD Tabata (resigned September 19, 2007)	4	4	1	1
ST Arnold ⁽²⁾	6	6	2	2
TD Mahloele (resigned January 30, 2008)	5	1	2	0
MJ Lamberti (Chairperson) (resigned June 3, 2008)	5	5	2	2

Notes:

(1) The table represents the possible meetings based on the appointment and resignation dates of members.

(2) Resigned from the committee with effect February 15, 2008 but continues to attend by invitation.

At its meeting held on November 9, 2006, the board resolved that the human resource review and remuneration committee should comprise only non-executive directors. As a result, Mr. LRR Molotsane, Mr. RJ September and Ms. CK Mokoena attended meetings of the committee by invitation only.

Directors' remuneration

Telkom believes that the levels and make-up of the remuneration packages offered to the directors of Telkom, especially the chief executive officer, are sufficient to attract and retain the directors needed to run Telkom's business successfully. In order to avoid paying more than is necessary and to ensure that Telkom offers competitive packages, Telkom constantly benchmarks itself against its peer group.

In determining specific remuneration packages for the chief executive officer and non-executive directors, the human resources review and remuneration committee consults with the chairperson of the board, and is sensitive to the remuneration and employment conditions elsewhere in the Telkom Group. In doing so, performance related elements of the remuneration constitute a large proportion of the total remuneration package of the chief executive officer and are specifically designed to align his interests with those of shareholders and to give such executive directors incentives to perform at the highest level.

Should the service of any of Telkom's executive directors be terminated early, the human resources review and remuneration committee will tailor its approach in respect of compensation commitments to the circumstances of the case with the broad aim of avoiding rewarding poor performance, while dealing fairly with cases where departure is not due to poor performance.

No director is involved in deciding his or her own remuneration. In addition, Telkom has adopted a formal and transparent procedure for developing a policy on executive directors' remuneration.

Telkom's articles of association provide that the remuneration of the directors for their service as directors shall be determined by the directors, after taking into account the recommendations of the human resources review and remuneration committee. Non-executive directors are not, as part of their remuneration, allocated shares in Telkom but may purchase shares in Telkom.

Directors' remuneration and interests are detailed in note 39 to the Telkom Group's consolidated annual financial statements included elsewhere herein.

Company secretary and professional advice

The directors have unrestricted access to the services and advice of the company secretary. Directors are entitled, after consultation with the chairman of the board, to seek independent professional advice about the affairs of Telkom at Telkom's expense.

The termination of the services of the company secretary is a matter to be decided by the board.

Directors' and officers' dealings

The board has adopted an insider trading policy in terms of which the directors, officers and employees of Telkom are prohibited from dealing in Telkom's securities when in possession of price sensitive information that has not yet been made public. In addition, Telkom imposes a "closed period" from the end of the reporting periods (i.e., year-end and half year-end) until the publication of the results during which period the directors, officers and employees of Telkom are prohibited from dealing in Telkom's securities.

Outside the closed periods directors and officers of Telkom are required to obtain prior approval from the Chairman of the board and the company secretary before dealing in Telkom's securities. Where the chief executive officer needs to deal in Telkom's shares outside closed periods, the chairman must give the approval. Where the chairman needs to deal in Telkom's shares outside the closed periods, prior approval must be obtained from the company secretary. Directors' dealings in Telkom's securities are published on SENS within the regulated timeframes. The SENS announcements that were published during the year are made available on the website www.telkom.co.za/ir. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Risk management

The Telkom Group has adopted a continuous, systematic enterprise-wide risk management process for assessing and monitoring its potential business and financial risks. As part of this process for the 2006 financial year, the service organizations reviewed key identified residual risks, which are the residual risks after mitigating controls have been considered. The risks are currently being reassessed and aligned to our current business. The components of the risk management system are designed to enable us to anticipate risks and to manage them carefully in the pursuit of our business goals. The principles, guidelines, processes and responsibilities of our internal control system have been defined and established to help ensure prompt and accurate accounting of all business transactions and to continuously provide reliable information about the Telkom Group's financial position for internal and external use. The board of directors continuously monitors treasury policies, risk limits and control procedures. The audit and risk management committee reviews the effectiveness of the risk management processes and reports regularly to the board.

The Telkom Group's risk exposure and management thereof is discussed in note 12 of the Telkom Group's consolidated annual financial statements.

Financial statements

The board of directors is responsible for preparing the Telkom Group's financial statements. In this regard, it is the board's responsibility to present a balanced and understandable assessment of both interim and annual financial information as well as other price sensitive public reports, including any reports to ICASA and other information that Telkom is statutorily obliged to disclose.

The directors report on the business as a going concern with supporting assumptions and qualifications as and when necessary at the time of the Telkom Group's interim and annual financial statements, and have established a formal and transparent arrangement for considering the financial reporting and internal control principles.

On June 7, 2007, Telkom's audit committee formalized a disclosure committee to oversee Telkom's disclosures and to assist the audit committee, the chief executive officer and the chief financial officer in fulfilling their responsibilities in this respect.

The purpose of the disclosure committee is to ensure that Telkom implements and maintains internal procedures for the timely collection, evaluation and accurate disclosure, as appropriate, of information potentially subject to public disclosure under the legal, regulatory and stock exchange requirements to which it is subject and which is made available in the market place or to the investment community. Such procedures are designed to source information that is relevant to an assessment of the need to disclose developments and risks that pertain to Telkom's businesses, and their effectiveness for this purpose to be reviewed periodically.

The initial membership of the disclosure committee was proposed by the chief financial officer and approved by the chief executive officer. Thereafter members may be replaced, or new members appointed, as required by the chief executive officer, the chief financial officer and the Audit Committee. Notwithstanding the foregoing, the chief executive officer and chief financial officer, under exceptional circumstances may at any time assume any or all of the responsibilities of the disclosure committee.

The disclosure committee is required to meet once a quarter commencing after June 2007 or as frequently as circumstances dictate to ensure accuracy and completeness of Telkom's disclosure statements and to evaluate its disclosure controls that may need revision due to changes in Telkom's organization, business lines and regulatory environment and any changes in economic or industry conditions.

Code of ethics

Telkom has adopted a business code of ethics that seeks to instill in its employees the spirit of fairness, respect and ethical standards in dealing with Telkom's customers, competitors, suppliers, investors, shareholders and communities to ensure that Telkom's integrity is not compromised.

Specific documentation to raise and maintain ethical awareness and to guide all levels of employees include the Telkom Insider Trading Policy, Telkom Acceptance of Directorships, Work Outside the Scope of Telkom Duties, as well as other Telkom policies, procedures and applicable laws as amended from time to time.

In business dealings on behalf of Telkom, employees are expected to avoid activities that might give rise to conflicts of interest. In view of this, certain responsibilities for management and all employees are clearly communicated. Employees are expected to act in the exclusive interest of Telkom. Procedures have been put in place to deal with conflicts of interest where these arise in the course of employees' day-to-day activities, such as disciplinary action, suspension or even termination of employment and civil or criminal proceedings. Telkom has established a confidential hotline service to encourage and enable whistle blowing. As part of the business code of ethics, there is a policy to protect whistleblowers from discrimination and harassment. Telkom has also introduced fraud and management systems.

The business code of ethics is reviewed regularly to ensure that it keeps up with developments both inside and outside Telkom. The business code of ethics is published on Telkom's website at www.telkom.co.za/ir. Information contained on Telkom's website or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Employment equity

Telkom has in place an employment equity policy, which seeks to promote equity in the workplace by promoting equal opportunity and fair treatment through the elimination of unfair discrimination against people from previously disadvantaged groups in the workplace. Unfair discrimination in the workplace on the basis of gender, race, culture, religion, etc., is prohibited.

The main objectives of this policy are to:

- create an environment in which the best-qualified person is employed regardless of gender, religion, culture and race;
- create within Telkom a balanced profile of employees that reflects the composition of South African society at large;
- correct racial and social imbalances of the past; and
- provide for Telkom's current and future requirements for skilled staff.

Relationship with shareholders

Telkom is and remains ready, when practical and legal, to enter into dialogue with shareholders and make such information publicly available to all shareholders. Telkom will make every effort to keep its shareholders intelligently informed. Telkom has established an investor relations function and an investor relations portal (www.telkom.co.za/ir) for communication with investors. Information contained on Telkom's investor portal is not a part of this annual report.

EMPLOYEES

Fixed-line employees

The following table sets forth the number of our full time employees in our fixed-line segment.

	As of March 31,			2007/2006 % change	2008/2007 % change
	2006	2007	2008		
Network and technology	19,637	19,645	17,929	0.0	(8.7)
Marketing and sales	4,099	4,254	4,982	3.8	17.1
Support and other	1,839	1,965	1,968	6.9	0.2
Total	25,575	25,864	24,879	1.1	(3.8)

In addition to our full time employees, Telkom had 3,801 temporary employees on March 31, 2008. Our employees are represented by the Communication Workers Union, or CWU, the South African Communications Union, or SACU, and the MWU-Solidarity Union. The Alliance of Telkom Unions, or ATU, disbanded during the course of the 2007 financial year. Some of our employees also belong to other unions that are not recognized by Telkom for collective bargaining purposes, including the Postal Union, the Society of Telkom Engineers, the South African Steel and Allied Workers Union and the United Association of South Africa. As of March 31, 2008, approximately 70% of our total Telkom employees were union members.

Employee related expenses are a significant component of our total fixed-line operating expenses. Fixed-line employee expenses increased 4.2% from R7.1 billion in the 2007 financial year to R7.4 billion in the 2008 financial year. The number of Telkom employees declined by approximately 31,236 positions from March 31, 1997 through March 31, 2006, increased by 289 positions in the year ended March 31, 2007 and decreased by 985 positions in the 2008 financial year. As of March 31, 2008, Telkom had 24,879 employees.

Telkom is a party to a collective agreement on substantive matters covering the terms and conditions of employment of its fixed-line unionized employees and other non-management employees in Telkom's bargaining unit with ATU and CWU for the period from April 1, 2006 to March 31, 2009. In addition, Telkom signed a new collective recognition agreement with ATU and CWU in mid-2004, designed to enhance the relationship between shop stewards and management. The long term substantive agreement provides for the re-opening of negotiations in the event the consumer price index varies from the April 2006 level of 3.7% by more than 3%. Due to inflation increasing beyond this percentage, Telkom re-opened the negotiations in December 2007 and thus far, we have not managed to reach settlement. Given the rapidly deteriorating economic conditions as evidenced by an increase in the consumer price index from 7.9% in December 2007 to 11.7% in May 2008, the various Trade Union Federations especially COSATU have requested a double-digit increase. We have received a notice from CWU advising Telkom of its intention to embark on some unspecified industrial action.

Telkom had placed a moratorium on employee reductions until March 31, 2007. Telkom recently announced that it was launching a capability management process to identify partners for network operations, information technology management and Telkom Direct shops pursuant to which certain elements will be outsourced to professional service providers. Telkom has issued a closed request for proposals for professional services in this regard.

Our ability to achieve the planned cost reductions through capability management is further subject to our ability to outsource necessary services and source strategic partners with the necessary benefits of scale and required information, communications and technology capabilities to enable continued alignment and transformation. In particular, our outsourcing initiatives will be subject to compliance with South Africa labor and employment laws and successful negotiations with our labor unions and workforce. See Item 3. "Key Information – Risks related to the Republic of South Africa – Significant labor expenses as a result of collective bargaining and the cost of compliance with South Africa labor laws could limit our operating flexibility and disrupt our fixed-line business operations and reduce our net profit."

Telkom is engaging with organized labor in line with transparency and labor regulations in connection with the implementation of its capability management program. If we are unable to implement workforce reductions as necessary or our planned capability management and outsourcing, particularly as a result of increased competition, or experience significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining or compliance with labor laws, our business operations could be disrupted and our net profit could be reduced.

Trade unions have resisted workforce reductions and publicly opposed our proposed capability management and outsourcing plans and our privatization and have instituted and in the future could institute work stoppages to oppose changes in our employee and shareholding structure or gain leverage in negotiating collective bargaining agreements. Approximately 23% of Telkom's employees participated in a work stoppage in March 2006 and approximately 31% of Telkom's employees participated in an additional work stoppage in April 2006 with respect to compensation issues, during which period Telkom received increased reports of sabotage, vandalism and other incidents. In addition, during the course of April and May 2007, approximately 35 members of Solidarity embarked on a five day industrial action due to their dissatisfaction with the implementation of Telkom's new shift roster.

A number of South African trade unions, including the trade unions of our employees, have close links to various political parties. In the past, trade unions have had a significant influence in South Africa as vehicles for social and political reform and in the collective bargaining process. Since 1995, South Africa has enacted various labor laws that enhance the rights of employees and have resulted in increased compliance costs.

These laws:

- confirm the right of employees to belong to trade unions;
- guarantee employees the right to strike, the right to picket and the right to participate in secondary strikes in prescribed circumstances;
- provide for mandatory compensation in the event of termination of employment due to redundancy;
- limit the maximum ordinary hours of overtime work;
- increase the rate of pay for overtime;
- require large employers, such as us, to implement employment equity policies to benefit previously disadvantaged groups and impose significant monetary penalties for non-compliance; and
- provide for the financing of training programs by means of a levy grant system and a national skills fund.

We believe that investment in employee training and development is essential to implementing corporate cultural change and improving customer satisfaction. In order to improve the skill levels of our employees, we invested R283.1 million in employee training and development in the year ended March 31, 2008.

Leadership development continues to remain our primary priority, with specific focus on previously disadvantaged groups. We have launched a number of initiatives designed to train our employees and encourage employee retention.

Mobile employees

The following table sets forth the number of Vodacom's employees as of the dates indicated.

	As of March 31,			2007/2006 % change	2008/2007 % change
	2006	2007	2008		
South Africa	4,305	4,727	4,849	9.8	2.6
Other African	1,154	1,522	1,992	31.9	30.9
Total⁽¹⁾	5,459	6,249	6,841	14.5	9.5

Note:

(1) Vodacom had a total of 732, 581 and 469 temporary and contract employees as of March 31, 2008, 2007 and 2006, respectively. Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of other African countries and excluded from Vodacom South Africa's number of employees.

Vodacom is an equal opportunity employer committed to empowerment and has developed an employment equity policy that is available to all employees. Vodacom's South African employees' participation in unions was approximately 13.9% as of March 31, 2008, approximately 12.3% as of March 31, 2007 and approximately 10.2% as of March 31, 2006. Vodacom believes that the relationship between its management and its employees and labor unions is good.

Less than 7% of Vodacom's employees participated in a strike action in July 2007 and picketed in March 2007 due to disagreements with Vodacom's requirements that the Communications Workers Union have representation of at least 30% of Vodacom's employees before qualifying for the right to be recognized and negotiate as a trade union.

Other employees

The following table sets forth the number of employees in our other segment as of the dates indicated.

	<u>As of March 31,</u>			<u>2007/2006</u> <u>% change</u>	<u>2008/2007</u> <u>% change</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>		
TDS Directory Operations	514	549	610	6.8	11.1
Swiftnet	67	76	85	13.4	11.8
Africa Online	—	317	379	—	19.6
Multi-Links	—	—	680	—	—
Telkom Media	—	—	142	—	—
Total	581	942	1,896	62.1	101.3

TDS Directory Operations' employees increased in the 2008 financial year primarily in order to expand its marketing capacity.

SHARE OWNERSHIP

As of March 31, 2008, none of Telkom's directors had any beneficial or non-beneficial interest in any of Telkom's shares except as stated below:

	<u>Beneficial</u>		<u>Non-beneficial</u>		<u>Total</u>	<u>% of Telkom</u> <u>outstanding</u> <u>shares</u>
	<u>Direct</u>	<u>Indirect</u>	<u>Direct</u>	<u>Indirect</u>		
Directors' shareholding						
2008						
Executive						
RJ September	7,155	—	—	—	7,155	
Total	7,155	—	—	—	7,155	
2007						
Non-executive						
TF Mosololi	455	—	—	—	455	*
Total	455	—	—	—	455	*

Note:

* Less than 1%.

As of March 31, 2008, none of Telkom's directors or senior management individually held more than 1% of Telkom's outstanding ordinary shares.

As of March 31, 2008, Telkom's directors and senior management (16 persons) collectively beneficially held 18,829 ordinary shares. The foregoing information does not include ordinary shares held by the Government or the Public Investment Corporation.

The following ordinary shares were allocated to members of Telkom's senior management under its conditional share plan. These shares do not vest until three years from the date of grant subject to company performance.

	June 2004 allocation	June 2005 allocation	June 2006 allocation	Additional June 2006 allocation	June 2007 allocation	Total allocation
Existing members						
RJ September	6,549	5,450	5,849	23,397	26,457	67,702
DJ Fredericks	1,889	1,974	1,842	11,204	11,167	28,076
MJ Nzeku	4,913	3,667	4,436	17,744	20,031	50,791
TG Msimango	3,755	3,489	4,436	17,744	26,457	55,881
IM Fourie	1,850	3,489	3,433	10,299	11,755	30,826
CK Mokoena	3,745	2,795	3,819	11,457	13,781	35,597
GJ Rasethaba	—	—	2,616	7,849	9,450	19,915
Resignations						
LRR Molotsane (left the employment of Telkom on April 5, 2007)	—	—	11,457	—	—	11,457 ⁽¹⁾
KR Patel (resigned October 31, 2007)	5,534	4,733	4,670	18,678	20,031	53,646
SG Ntoele (member of the executive committee from April 1, 2007 to November 1, 2007)	4,288	3,489	3,433	10,299	11,755	33,264
MB Sallie (member of the executive committee from April 1, 2007 to November 1, 2007)	4,294	3,205	3,433	10,299	11,755	32,986

Note:

- (1) Pursuant to a settlement agreement between Telkom and Mr. Molotsane, the shares allocated to Mr. Molotsane did not vest.

Item 7. Major shareholders and related party transactions

MAJOR SHAREHOLDERS

Overview

Telkom and its predecessors had been responsible for the exclusive provision of public switched telecommunication services in the Republic of South Africa from 1910 through May 2002. Prior to 1991, Telkom's business was conducted as a division of the Department of Posts and Telecommunications of the Government of the Republic of South Africa. On September 30, 1991, the Government of the Republic of South Africa embarked upon a commercialization process through which the Department of Posts and Telecommunications transferred its telecommunications enterprise to Telkom. Telkom remained a wholly state owned entity until May 14, 1997, when the Government of the Republic of South Africa sold a 30% equity stake in Telkom to Thintana Communications, which was 60% beneficially owned by SBC Communications and 40% beneficially owned by Telekom Malaysia. On March 7, 2003, the Government sold 154,199,467 of its ordinary shares in a global initial public offering, including 14,941,513 ordinary shares through the exercise of an over-allotment option. Prior to the global offering, the Government owned 67% of Telkom's issued and outstanding ordinary shares. As part of the global offering, on March 4, 2003, the Government granted to persons employed by Telkom on March 4, 2003 and eligible former employees of Telkom, options to purchase 11,140,636 of its ordinary shares, through the Diabo Share Trust, which were exercisable in four equal tranches over a period of three years commencing six months after March 4, 2003, which were held by the Government until exercised. On March 4, 2005, the second anniversary of Telkom's listing, 785,160 bonus shares were allotted by the South African Government to qualifying shareholders under the Khulisa offer. Thintana Communications sold a 14.9% interest in Telkom to South African and certain international institutional investors in June 2004. In November 2004, Thintana Communications announced that it sold its remaining 15.1% interest in Telkom, including its class B ordinary share, to the Public Investment Corporation, an investment management company wholly owned by the South African Government, and its subsidiary, Black Ginger.

The following sets forth entities or persons known to Telkom to be the beneficial holders of 5% or more of Telkom's issued and outstanding ordinary shares as of June 30, 2008. The following information is based on public filings and disclosures.

Name of shareholder	Number of ordinary shares	Percentage of class	
		Issued	Outstanding
Government of the Republic of South Africa	207,055,866 ⁽¹⁾	39.8%	41.5%
Black Ginger	46,604,997 ⁽²⁾	9.0%	9.3%
Public Investment Corporation	34,123,066	6.6%	6.8%
Elephant Consortium	30,467,930	5.9%	6.1%

Notes:

- (1) Includes one Class A ordinary share held in the Republic of South Africa by the Government, which represents 100% of the class.
- (2) Includes one Class B ordinary share held directly by Black Ginger, a wholly owned subsidiary of the Public Investment Corporation which represents 100% of the class.

As of March 31, 2008, ADRs evidencing approximately 1,443,801 ADSs were held of record by approximately 12 record holders. The 5,775,204 ordinary shares represented by those ADRs (approximately 1.1% of Telkom's issued and 1.2% of Telkom's outstanding ordinary shares) were registered in the name of Standard Bank of South Africa. As of June 30, 2008, ADRs evidencing approximately 692,133 ADSs were held of record by approximately 15 record holders. The 2,768,532 ordinary shares represented by those ADRs (approximately 0.5% of Telkom's issued and 0.6% of Telkom's outstanding ordinary shares) were registered in the name of Standard Bank of South Africa.

Some of these ADRs were held of record by persons outside the United States. In addition, as of March 31, 2008, we estimate that approximately 67 million publicly traded ordinary shares were held of record outside of South Africa, of which approximately 44 million are estimated to be held in the United States. Since certain of Telkom's ADRs and ordinary shares are held by brokers or other nominees, the number of ADRs and ordinary shares held of record and the number of record holders outside of South Africa may not be representative of the location of where the beneficial holders are resident.

Telkom's special purpose entity established to fund post retirement medical obligations indirectly held approximately 161,550 of Telkom's ordinary shares as of March 31, 2008.

As authorized by its shareholders at annual general meetings held on January 27, 2004, October 14, 2004, October 21, 2005, October 20, 2006 and October 26, 2007, Telkom is authorized to purchase up to 20% of its issued share capital. This authority is valid until Telkom's next Annual General Meeting, or for 15 months from the date of the resolution, whichever period is shorter.

In the year ended March 31, 2006, Telkom repurchased 12,086,920 of its ordinary shares at a volume weighted average price of R124.31 per share, including costs. These ordinary shares have been cancelled from the issued share capital by the Registrar of Companies. Telkom repurchased 12,089,371 of its ordinary shares at a volume weighted average price of R132.04 per share, including costs, in the 2007 financial year. The ordinary shares have been cancelled for the issued share capital by the Registrar of Companies. Between January 22, 2008 and March 6, 2008, Telkom repurchased 12,071,334 ordinary shares at a volume weighted average price of R136.47 per share, including costs.

Between August 3, 2004 and September 15, 2004, Rossal a wholly owned subsidiary of Telkom, repurchased 9,531,454 shares at a volume weighted average price of R78.49 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan. On June 4, 2004, Telkom purchased Acajou for share repurchase activities, including for the Telkom conditional share plan. Between June 7, 2004 and September 30, 2004, Acajou purchased 10,849,058 shares at a volume weighted average price of R76.12 per share, including costs, which are also being held in treasury. In the year ended March 31, 2004, Rossal, repurchased 3,185,736 shares at a volume weighted average price of R74.58 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan.

In terms of the South African Companies Act, 61 of 1973, a subsidiary company may acquire up to 10% of the shares in its holding company and if the holding company acquires its own shares directly, such shares must be cancelled.

Telkom plans on continuing its buy back strategy based on certain criteria.

Except as stated under Item 6. "Directors, Senior Management and Employees – Share Ownership", none of Telkom's directors or senior management is the beneficial owner of any of Telkom's ordinary share capital. Except as disclosed above, Telkom is not directly or indirectly owned or controlled by any other corporation, foreign government or any other natural or legal person severally or jointly and Telkom is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of Telkom. The Government, as a significant shareholder holding the class A ordinary share, has special voting rights that are more fully described in Item 6. "Directors, Senior Management and Employees" above and Item 10. "Additional Information – Memorandum and Articles of Association – Variation of Rights" below.

RELATED PARTY TRANSACTIONS

Registration rights agreement

Telkom has entered into a registration rights agreement with the Government and Thintana Communications. Pursuant to the agreement, the Government has the right to cause Telkom to either effect a JSE public offering in South Africa, or register with the Securities and Exchange Commission all or part of its ordinary shares, or both, at any time starting after the Minister's 545 day lock-up period after the expiration of or release from Thintana Communications' 180-day lockup period. The Government can demand any number of successive registrations, but no more than one in any calendar year, provided that Thintana Communications was entitled to two such registrations prior to the Government becoming entitled to demand any registrations. In addition, the Government has the right to have its ordinary shares registered or sold in a listed public offering any time that Telkom or any other person seeks registration of, or a listed public offering for, Telkom's issued and outstanding ordinary shares.

Pursuant to the registration rights agreement, in the event that the Government exercises its right to include shares held by it in a JSE public offering or US registration of Telkom shares that is sought by Telkom or by any other person, Telkom would be required to bear and pay all expenses incurred in connection with such offering or registration, including all registration, listing and filing and qualification fees, as well as underwriting discount and commissions. However, in the event that the Government exercises its right to demand Telkom to effect a JSE public offering or US registration of ordinary shares held by it, Telkom would be required to bear and pay all expenses incurred in connection with registration, listing and filing or qualifications, however, certain fees relating to such registration or listing shall be borne by the Government. In that case, underwriting discounts and commissions will be borne by each relevant party based on the number of shares issued or sold by that party. Telkom is required to indemnify certain parties, including the Government and the underwriters and their respective directors, officers, employees and agents against certain losses in connection with such public offering or registration.

Relationship with the Government of the Republic of South Africa

The Government of the Republic of South Africa is Telkom's largest shareholder and is responsible for the telecommunications industry policy in the Republic of South Africa. The Government also holds significant equity stakes in other industry participants, including Sentech, and has an indirect 30% equity interest in Neotel and recently created Infracore, which is expected to provide inter-city bandwidth at cost based prices to Neotel and later to the rest of the industry. To further its policy of liberalization of the telecommunications industry, the Government may adopt and implement policies and exercise its right to approve regulations that benefit our competitors but are not beneficial to us. In addition, to further other political or social objectives, the Government may be required to act in a manner that may be detrimental to our business but advantageous to our competitors.

The Ministry of Communications has the most direct role in our business. However, we have interactions with several other Ministries, including the Ministry of Finance for matters relating to taxation, the Ministry of Labor for matters relating to employment and the Ministry of Trade and Industry for matters relating to the communications industry, particularly regarding the Codes of Good Practice on Broad Based Black Economic Empowerment.

The Government of the Republic of South Africa as regulator

Ministry of Communications

The Ministry of Communications has a number of roles that, directly or indirectly, affect us:

- The Ministry of Communications represents the Government of the Republic of South Africa as Telkom's shareholder. The Minister has the powers and duties conferred on a shareholder of a public limited liability company by South African law and Telkom's articles of association.
- The Ministry is responsible for the development of communications policy and for proposing legislation to implement such policy, subject to supervision by the Cabinet of the Republic of South Africa. The Ministry is also responsible for administering the Electronic Communications Act, 36 of 2005, and the Independent Communications Authority of South Africa Act, 13 of 2000.
- Under the Electronic Communications Act, the Ministry may make policies and issue policy directions to ICASA, except in respect of the granting amendment or withdrawal of communications or broadcasting licenses. ICASA, in exercising its functions, must consider policies made or policy directions issued by the Minister.

ICASA

ICASA is the regulatory body for the telecommunications and broadcasting industries. ICASA derives its powers from the Independent Communications Authority of South Africa Act, 13 of 2000, and, with respect to telecommunications, from the Electronic Communications Act, No. 36 of 2005, which has repealed the Telecommunications Act, 103 of 1996. ICASA serves as the primary regulatory and licensing authority for the South African telecommunications and broadcasting industries, except for specific licenses that can only be granted by the Minister of Communications.

ICASA's primary powers under the Electronic Communications Act and the ICASA Act are to:

- conduct public inquiries in any matter relevant to the achievement of the objectives of the Electronic Communications Act or to the performance of its functions in terms of the Electronic Communications Act;
- plan, control and manage the radio frequency spectrum and license its usage;
- grant telecommunications licenses;
- make regulations as provided for in the Electronic Communications Act;
- approve, amend or reject agreements entered into by telecommunications licensees relating to interconnection or the leasing of telecommunications facilities, in accordance with the relevant regulations; and
- investigate and adjudicate alleged contraventions of the Electronic Communications Act, regulations or license conditions by licensees and, where appropriate, impose sanctions provided in the Electronic Communications Act.

A bill amending the ICASA Act, No. 13 of 2000, was passed by the Parliament of South Africa and signed by the President and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquiries and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non-compliance with the Electronic Communications Act.

Public Finance Management Act and Public Audit Act

Telkom is required to report certain aspects of its business and operations, such as its corporate and business plans, to the Minister of Communications in her capacity as executive authority of Telkom pursuant to the PFMA and PAA. Telkom has obtained a temporary exemption from certain provisions of the PFMA until October 2010 and has been informed by the South African Auditor-General that it will not be required to comply with the PAA until such date. See Item 3. “Key Information – Risk Factors – Risks Related to Regulatory and Legal Matters – If Telkom is required to comply with the provisions of the South African Public Finance Management Act, 1 of 1999, or PFMA, and the provisions of the South Africa Public Audit Act of 2004, or PAA, Telkom could incur increased expenses and its net profit could decline and compliance with the PFMA and PAA could result in the delisting of Telkom’s ordinary shares and ADSs from the JSE and the New York Stock Exchange”.

The Government of the Republic of South Africa as a customer

The departments and agencies of the Government of the Republic of South Africa in the aggregate comprise one of our largest customers. Generally, we deal with the various departments and agencies of the Government as separate customers, and the provision of services to any one department or agency does not constitute a material part of our revenues. Legislation has been enacted to centralize all procurement by the Government through one agency. We estimate that in the year ended March 31, 2008, Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line revenue and at least 4% of our total fixed access lines. The Government has, and in future may, transfer some or all of its existing business to Neotel or other operators, including value added network service providers. Legislation has been enacted to centralize all procurement of telecommunications and information technology services by the Government, through one agency. If the Government transfers some or all of its business to other operators, our operating revenue and net profit could decline.

The Government of the Republic of South Africa Guarantees

Pursuant to Section 35 of the South African Exchequer Act, 66 of 1975, the Government of the Republic of South Africa guaranteed Telkom’s borrowings incurred prior to 1991. As of March 31, 2008, R141 million of our total indebtedness of R17.1 billion was guaranteed by the Government of the Republic of South Africa.

Relationship with Vodacom and related transactions

Vodacom joint venture agreement

We acquired a 50% equity interest in Vodacom in 1993. Our rights as a shareholder of Vodacom are governed by a joint venture agreement, which was entered into on March 29, 1995, among Telkom, Vodafone, VenFin, Vodacom and other related parties. On April 20, 2006, Vodafone acquired 100% of the shares of VenFin Limited, who ultimately owned 15% in Vodacom, thus increasing its beneficial interest in Vodacom to 50%.

Governance

The Vodacom joint venture agreement sets the number of directors of the board of directors of Vodacom at a minimum of twelve. Telkom and Vodafone each have the right to appoint four directors and the remaining four directors are appointed by shareholders holding 10% or more of the issued shares of Vodacom who are a party to the joint venture agreement. Currently, the only shareholders holding beneficially 10% or more of the issued shares in Vodacom are Telkom and Vodafone.

Under the Vodacom joint venture agreement, the Vodacom board was required to establish a directing committee and delegate all its power, functions and authority to act on behalf of Vodacom to this committee. This authority cannot be revoked without the prior written consent of the shareholders holding 10% or more of the issued shares of Vodacom. The directing committee comprises all directors appointed to Vodacom's board by shareholders holding 10% or more of the issued shares of Vodacom. Currently, the directing committee consists of eight members comprising four directors appointed by Telkom and four directors appointed by Vodafone.

The unanimous written agreement of those shareholders holding 10% or more of the issued shares of Vodacom is required for, among other things, the following consensus matters prior to Vodacom or any of its subsidiaries that are a party to the joint venture agreement taking any of the following actions:

- changing the nature of or discontinuing its business;
- disposing of a material part of assets, shares or claims against its subsidiaries;
- making material acquisitions, merging with another company or entering into a change of control transaction;
- altering or affecting its capital structure, including the issuance of any shares, the granting of options or the issue of convertible debentures;
- proposing any special resolution;
- altering its dividend policy;
- incurring certain interest bearing debt which exceeds 50% of the consolidated shareholders' funds;
- establishing any employee bonus or share incentive scheme;
- appointing or removing any director to or from its board of directors, otherwise than in accordance with the joint venture agreement;
- entering into any agreement with any of its shareholders or affiliates;
- agreeing to any material alteration of its rights flowing from any license held by it or its subsidiaries enabling such companies to do their business;
- approving or amending the business plan of Vodacom; and
- appointing or removing the chairperson of the board or chief executive officer.

If the shareholders holding 10% or more of the issued shares of Vodacom fail to reach agreement on an above consensus matter, they are required to exercise all the powers that they have to ensure the consensus matter is not consummated. Should any dispute arise between the shareholders holding 10% or more of the issued shares of Vodacom regarding the failure of those shareholders to reach consensus, the dispute is to be referred for determination to the chairpersons of those shareholders at the request of any shareholder holding 10% or more of the issued shares of Vodacom. If the chairpersons fail to reach agreement on the consensus matter in question, each shareholder is entitled to enforce any rights through any competent court.

Pursuant to the Vodacom joint venture agreement, all members of the directing committee are required to agree on certain matters and, in the event of disagreement, the issue is treated as a consensus matter requiring the unanimous written consent of those shareholders holding 10% or more of the issued shares of Vodacom. The following matters require unanimous approval:

- the approval or amendment of any subsidiary company business plans;
- expenditures that are in excess of 10% of total budgeted expenditures;
- non-budgeted capital expenditures that are in excess of 5% of the consolidated shareholders' funds;

- the encumbrance of any assets or the issuance of guarantees where the liability secured is in excess of the lower of 5% of the consolidated shareholders' funds or R10 million;
- any agreement with any shareholder of Vodacom; and
- the appointment of the company secretary.

The approval of at least six directors appointed to the directing committee is required to take action with respect to:

- the approval or adoption of the terms and conditions and any amendments to the interconnect and transmission agreements concluded with Telkom;
- the setting or adjustment of tariffs; and
- the approval of terms and conditions of supply and associated agreements with the suppliers of infrastructure.

Non-competition

Each party to the Vodacom joint venture agreement has agreed that neither it nor its affiliates will form a similar joint venture relationship, or invest in any competitive business in the Republic of South Africa. This restraint lapses with respect to each party two years after the date such party ceases to be a shareholder of Vodacom or upon termination of the joint venture agreement.

In addition, each party to the Vodacom joint venture agreement has agreed that it will not own, manage or otherwise become engaged in any GSM mobile telecommunications entity or analogue system or otherwise participate in any mobile telecommunications activities in any African country, a major portion of which is situated below the equator, ("the extended territory") unless the party proposing to engage in such activity first offers Vodacom the opportunity to pursue such activity and Vodacom declines. Any decision by Vodacom to become involved in a GSM or analogue system in this territory would require the written consent of those shareholders holding 10% or more of the issued shares of Vodacom if such involvement is a consensus matter as contemplated in the Vodacom joint venture agreement.

Right of first offer

If any Vodacom shareholder that is a party to the joint venture agreement wishes to sell any of the shares held by it, it must offer to sell such shares and an equivalent portion of its claims on loan accounts in Vodacom to the other party to the joint venture agreement. If none of the non-transferring parties accepts such an offer to purchase all of the shares and claims offered on the terms in the notice, then the selling shareholder has the right to sell the shares and an equivalent portion of its claims to a third party at a price not lower than the price, and upon the terms, set forth in the seller's original offer.

Other related transactions with Vodacom

We market and sell our residential products through Vodacom.

Other related transactions

The following are additional related party transactions of which Telkom is aware:

Mesdames Arnold, Matthews and Huntley and Dr. Spio-Garbrah and Mr. Lawrence, five of Telkom's board members as of March 31, 2008, were the Government's representatives on Telkom's board of directors. Messrs. Tabata, Tenza and Mostert, previous Government representatives, resigned on September 19, 2007, and were replaced by Ms. Huntley, Dr. Spio-Garbrah and Mr. Lawrence. Mr. Mahloe, one of Telkom's Board members, was the Public Investment

Corporation's representative on Telkom's board of directors. He resigned on January 30, 2008 and was replaced by AG Rhoda. AG Rhoda resigned on July 3, 2008 and was replaced by B Molefe. The Public Investment Corporation is currently only entitled to appoint one representative to Telkom's board of directors.

Mr. Dumisani Tabata, one of Telkom's former board members, is a director and shareholder of Vuwa Investments (Proprietary) Limited, which acquired a 40% interest in the SAIL Group Limited, with effect from October 1, 2006. SAIL Group is a sports marketing company that does business with Telkom. Telkom paid R17,094,884 in the 2008 financial year for goods and services from the SAIL Group. The outstanding creditors balance at Telkom as of March 31, 2008 was R885,000. Vodacom paid R592,474,403 in the 2008 financial year for goods and services from the SAIL Group. The outstanding creditors balance at Vodacom as of March 31, 2008 was R21,260,584. Vuwa Investments is a consortium member of Amandla Omoya, who has bid to acquire a stake in Vodacom.

See also note 41 to the Telkom Group's consolidated financial statements for additional information with respect to related party transactions.

Item 8. Financial information

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated financial statements

Reference is made to Item 18 of this annual report for this information.

Legal proceedings

Telcordia instituted arbitration proceedings against Telkom in March 2001 before a single arbitrator of the International Court of Arbitration, operating under the auspices of the International Chamber of Commerce. Telcordia is seeking to recover approximately U.S.\$130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year which was increased by Telcordia to US\$172 million in the 2007 financial year and subsequently decreased to US\$128 million in the 2008 financial year. The arbitration proceeding relates to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end-to-end customer assurance and activation system by Telcordia. In September 2002, the arbitrator found that Telkom had wrongfully repudiated the contract and a partial award was issued by the arbitrator in favour of Telcordia. Telkom subsequently filed an application in the South African High Court to review and set aside the partial award. On November 27, 2003, the South African High Court set aside the partial award and issued a cost order in favour of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. On November 29, 2004 the Supreme Court of Appeals granted Telcordia leave to appeal. Telcordia filed a notice of appeal and also petitioned the United States District Court for the District of Columbia to confirm the partial award, which petition was dismissed, along with a subsequent appeal. Following the dismissal of the appeal, Telcordia filed a similar petition in the United States District Court of New Jersey. The United States District Court of New Jersey also dismissed Telcordia's petition, reaffirming the decision of the United States District Court of Columbia. Telcordia appealed this dismissal, which was later dismissed by the Appeals Court of New Jersey.

The appeal by Telcordia in the Supreme Court of Appeals was set down for and heard on October 30 and October 31, 2006. Following the successful upholding of the appeal, Telkom filed an application for leave to appeal to the Constitutional Court on only the issue revolving around the Supreme Court of Appeals' failure to recognize Telkom's rights of access to the courts under the South African Arbitration Act. The Constitutional Court has since dismissed Telkom's appeal with costs. The Constitutional Court judgment brought to finality the dispute over the merits of Telcordia's claim against Telkom and the parties reconvened the arbitration in May 2007 to deal with the amount of damages to which Telcordia is entitled. Two hearings were held at the International Dispute Resolutions Centre, or IDRC. The first hearing was held in London on May 21, 2007 and was a 'directions hearing', in terms of which the parties consented to a ruling by the arbitrator setting out a consolidated list of proposals and issues to form part of the damages hearing.

The second hearing was held in London at the IDRC on June 25 and 26, 2007 and dealt with the application by Telcordia for the striking out of part of Telkom's defense on the basis that Telkom had raised issues in its defense that had already been heard by the arbitrator prior to his partial award. This application was dismissed by the arbitrator. The arbitrator also made a ruling compelling Telcordia to provide certain particulars requested by Telkom with regard to the claims by Telcordia. In his ruling, the arbitrator also set out a list of issues for determination of the damages.

The mediation took place in London in February and April of 2008 without success. In the interim the parties have agreed to the appointment by the arbitrator of a third party expert to deal with the technical issues in relation with the software that was required to be provided by Telcordia, who will make a recommendation to the arbitrator in dealing with the amount of the claims. The arbitration is expected to continue later in 2008.

Although Telkom is currently unable to predict the exact amount that it may eventually be required to pay Telcordia, it has made provisions for estimated liabilities in respect of the Telcordia claim in the sum of US\$70 million (R569 million), including interest and legal fees. Telkom will be required to fund any payments to Telcordia from cash flows or the incurrence of debt and the amount of any damages above Telkom's provision would increase Telkom's liabilities and decrease its net profit, which could have a material adverse effect on its financial condition, cash flows and results of operations.

Competition Commission

We are parties to a number of legal and arbitration proceedings filed by parties with the South African Competition Commission alleging anti-competitive practices described below. If Telkom were found to have committed prohibited practices as contained in the Competition Act, 1998, as amended, Telkom could be required to cease these practices, divest these businesses and be fined a penalty of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for each complaint for the financial years prior to the dates of the complaints. The Competition Commission has to date not imposed the maximum penalty on any offender.

As competition continues to increase, we expect that we will become involved in an increasing number of disputes regarding the legality of services and products provided by us and third parties. These disputes may range from court lawsuits to complaints lodged by or against us with various regulatory bodies. We are currently unable to predict the amount that we may eventually be required to pay in these proceedings, however, we have not included provisions for any of these claims in our financial statements. In addition, we may need to spend substantial amounts defending or prosecuting these claims even if we are ultimately successful. If Telkom is required to cease these practices, divest itself of the relevant businesses or pay significant fines, Telkom's business and financial condition could be materially adversely affected and its revenue and net profit could decline. We may be required to fund any penalties or damages from cash flows or drawings on our credit facilities, which could cause our indebtedness to increase.

Independent Cellular Service Provider Association of South Africa (ICSPA)

In 2002, the ICSPA filed a complaint against Telkom at the Competition Commission in terms of the Competition Act, alleging that Telkom had entered into contracts with large corporations, providing large discounts with the effect of discouraging the corporates from using the 'premicell' device installed by their members. ICSPA alleged various contraventions of the Competition Act. Telkom provided the Competition Commission with certain information requested. Telkom also referred the Competition Commission to its High Court application in respect of utilization of the 'premicell' device. The Competition Commission declined to refer the matter to the Competition Tribunal. ICSPA then referred the matter to the Competition Tribunal on September 18, 2003. Telkom filed its answering affidavit on November 28, 2003. ICSPA has taken no further action since then.

The South African Value Added Network Services (SAVA)

On May 7, 2002, the South African Value Added Network Services Providers' Association, an association of VANS providers, filed complaints against Telkom at the Competition Commission of the Republic of South Africa under the South African Competition Act, 89 of 1998, alleging, among other things, that Telkom was abusing its dominant position in contravention of the Competition Act, 89 of

1998, and that it was engaged in price discrimination. The Competition Commission determined, among other things, that several aspects of Telkom's conduct contravened the Competition Act, 89 of 1998, and referred certain of the relevant complaints to the Competition Tribunal for adjudication. The referred complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidized competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers.

Telkom brought an application for review against the Competition Commission and the Competition Tribunal in the South African High Court, in respect of the decision by the Competition Commission to refer the matters to the Competition Tribunal. Telkom is of the view that the Competition Tribunal does not have jurisdiction to adjudicate these matters and argued that ICASA has the requisite jurisdiction. In the review application, Telkom also sought to set aside the decision by the Competition Commission to refer the complaints to the Competition Tribunal on the basis that the Competition Commission was biased, that the referral was out of time and that the Competition Commission had not adhered to the memorandum of understanding between it and ICASA. Only the Competition Commission opposed the application and filed an answering affidavit.

The main complaint at the Competition Commission was held over pending the outcome of the review application.

The application for review was heard on April 24 and 25, 2008. The South African High Court Judge set aside the decision of the Competition Commission to refer the SAVA complaints and the Omnilink complaint against Telkom discussed below to the Competition Tribunal. The decision was made based on three grounds, namely that:

- the Competition Commission failed to comply with the peremptory provisions of the memorandum of understanding between the Competition Commission and ICASA;
- the referral was out of time, on the basis that the agreements with the complainants to extend the time which the Competition Commission was allowed to investigate the complaints were invalid;
- the Competition Commission's reliance on a report by the Link Centre created reasonable apprehension of bias, since some of the complainants contribute financially to the Link Centre and the Link Centre's advisory board includes employees of the complainants in the SAVA complaints.

The Judge did not make a decision on the question of jurisdiction (i.e., whether ICASA or the Competition Tribunal has the jurisdiction to deal with competition matters in the electronic communications industry). To date, the Competition Commission has not appealed the South African High Court ruling.

Omnilink

On August 22, 2002 Omnilink filed a complaint against Telkom at the Competition Commission alleging that Telkom was abusing its dominance by discriminating in its price for Diginet services as against those charged to VANS and the price charged to customers who apply for a Telkom IVPN solution. The Competition Commission conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the Competition Tribunal for adjudication. This matter is currently being dealt with together with the SAVA matter discussed above and formed part of the application to the South African High Court by Telkom to set aside the decision by the Competition Commission to refer this complaint to the Competition Tribunal.

Orion/Telkom (Standard Bank and Edcon)

In April 2003, Orion filed a complaint against Telkom, Standard Bank and Edcon at the Competition Commission concerning Telkom's discounts offered on public switched telecommunication services to corporate customers. In terms of the rules of the Competition Commission, the Competition Commission, who acts as an investigator, had one year to investigate the complaint. Orion simultaneously with the filing of the complaint, also filed an application against Telkom, Standard Bank and Edcon at the Competition Tribunal, for an interim order interdicting and restraining Telkom from offering Orion's corporate customers reduced rates associated with Telkom's Cellsaver discount plan.

The Competition Commission completed its investigation and decided that there was no prima facie evidence of any contravention of the Competition Act. Orion however referred the matter to the Competition Tribunal in terms of section 51 of the Competition Act, which allows for parties to refer matters to the Competition Tribunal themselves. Telkom has not yet filed its answering affidavit in the main complaint before the Competition Tribunal. To date there has been no further developments on this matter.

Internet Service Association (ISPA)

In December 2005, the ISPA, an association of ISPs, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. The complaints deal with the cost of access to SAIX, the prices offered by TelkomInternet, the alleged delay in provision of facilities to ISPs and the alleged favorable installation timelines offered to TelkomInternet customers. The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint. Telkom provided the Competition Commission with the information and is awaiting the Commission's response.

M-Web and Internet Solutions (IS)

On June 29, 2005, M-Web and Internet Solutions, or IS, jointly lodged a complaint with the Competition Commission against Telkom and also requested interim relief at the Competition Tribunal. The complaint at the Competition Commission mainly deals with Telkom's pricing for ADSL retail products and its IP Connect products, the termination of the peering link between Telkom and IS, the wholesale pricing of SAIX bandwidth for ADSL users of other internet service providers, the architecture of Telkom's ADSL access route and the manner in which internet service providers can only connect to Telkom's edge service router via IP Connect as well as alleged excessive pricing for bandwidth on Telkom's international undersea cable. The application for interim relief at the Competition Tribunal dealt with allegations that Telkom should maintain the peering link between IS and Telkom in terms of its current peering agreement, and demanded that Telkom treat the traffic generated by ADSL customers of M-Web as traffic destined for the peering link and that Telkom upgrade its peering link to accommodate the increased ADSL traffic emanating from M-Web and maintain a maximum of 65% utilization. Telkom filed its answering affidavit, and is awaiting IS and M-Web's replying affidavit.

Since then, Telkom has entered into a new peering agreement with IS and has responded to numerous documentation and information requests from the Competition Commission. To date there has been no further developments on this matter, either in the filing of a replying affidavit by IS/M Web in the interim relief application or in the investigation of the matter by the Competition Commission.

M-Web

On June 5, 2007, M-Web brought an application against Telkom for interim relief at the Competition Tribunal with regard to the manner in which Telkom provides wholesale ADSL internet connections. M-Web requested the Competition Tribunal to grant an order of interim relief against Telkom to charge M-Web a wholesale price for the provision of ADSL internet connections which is not higher than the lowest retail price. M-Web further applied for an order that Telkom implement the migration of end customers from Telkom PSTS ADSL access to M-Web without interruption of the service. Telkom raised the objection that the Competition Tribunal does not have jurisdiction to hear the matter in its answering affidavit filed at the Competition Tribunal. Telkom still had to “plead over” as to the merits of the matter. Telkom also filed an application in the Transvaal Provincial Division of the South African High Court on July 3, 2007 for an order declaring that the Competition Tribunal does not have jurisdiction to hear the application for interim relief made to it by M-Web. The application before the High Court was set down for hearing during the first quarter of the 2009 financial year. The parties however entered into settlement negotiations, which resulted in the withdrawal of the interim relief application at the Competition Tribunal by M-Web as well as a withdrawal of the jurisdictional challenge filed at the South African High Court by Telkom. The parties are in further negotiations.

We are not currently able to predict when these disputes may be resolved or the amount that we may eventually be required to pay, however, we have not included provisions for all of these claims in our consolidated financial statements. In addition, we may need to spend substantial amounts defending or prosecuting these claims even if we are ultimately successful. If we were to lose these or future legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition. We may be required to fund any penalties or damages from cash flows or drawings on our credit facilities, which could cause our indebtedness to increase.

We are parties to various additional proceedings and lawsuits in the ordinary course of our business, which our management does not believe will have a material adverse impact on us.

Dividend policy

For a discussion of Telkom’s dividend policy, see Item 3. “Key Information – Dividends and Dividend Policy.”

SIGNIFICANT CHANGES

Except as disclosed elsewhere in this annual report, there have been no significant changes in Telkom’s business since March 31, 2008, the date of the consolidated annual financial statements included in this annual report.

Item 9. The offer and listing

Markets

Telkom's ordinary shares are listed on the JSE in the "Telecommunications Services" sector under the symbol "TKG" and ISIN Code "ZAE000044897" and its ADSs are listed on the New York Stock Exchange, Inc. under the symbol "TKG". The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York, as depositary, under the Deposit Agreement, dated as of March 3, 2003, among Telkom, The Bank of New York, as depositary, and the registered and beneficial owners from time to time of ADRs. The following table sets forth, for the periods indicated:

- the reported high and low market quotations as reported by the JSE; and
- the reported high and low sales prices on the NYSE Composite Tape of the ADSs:

	JSE (ZAR per ordinary share)		NYSE (USD per ADS)	
	High	Low	High	Low
2004 Financial Year	78.80	29.10	49.60	14.85
First Quarter				
April 2003	34.75	29.10	18.25	14.68
May 2003	34.00	30.50	17.70	15.58
June 2003	38.75	31.30	20.80	15.75
Second Quarter				
July 2003	45.00	38.80	24.35	21.20
August 2003	43.02	40.00	23.44	21.46
September 2003	44.07	40.30	25.34	22.15
Third Quarter				
October 2003	53.50	43.30	30.90	24.90
November 2003	65.30	53.20	40.50	30.75
December 2003	70.51	62.80	43.10	37.70
Fourth Quarter				
January 2004	75.01	62.50	44.90	35.00
February 2004	77.60	67.25	45.05	40.85
March 2004	78.80	68.45	49.60	41.60
2005 Financial Year	117.00	70.25	79.85	42.38
First Quarter				
April 2004	87.00	75.50	54.80	43.75
May 2004	79.40	72.50	47.26	42.45
June 2004	86.50	73.00	52.75	45.25
Second Quarter				
July 2004	84.00	77.75	54.25	50.90
August 2004	81.99	76.00	51.00	46.70
September 2004	80.00	72.55	48.00	44.80
Third Quarter				
October 2004	87.00	73.50	56.75	46.44
November 2004	103.50	82.00	70.25	55.70
December 2004	101.00	91.20	66.90	63.80
Fourth Quarter				
January 2005	109.00	93.01	72.75	62.10
February 2005	116.31	104.20	79.50	68.10
March 2005	117.00	101.50	79.85	67.00

	JSE (ZAR per ordinary share)		NYSE (USD per ADS)	
	High	Low	High	Low
2006 Financial Year	171.00	98.45	111.50	64.01
First Quarter				
April 2005	109.50	98.45	70.36	64.75
May 2005	116.39	106.50	73.98	66.05
June 2005	120.30	104.10	71.25	64.11
Second Quarter				
July 2005	131.00	108.00	77.15	64.01
August 2005	130.00	120.00	79.98	75.25
September 2005	129.98	121.35	81.85	76.50
Third Quarter				
October 2005	130.00	114.65	79.35	70.85
November 2005	145.00	125.80	86.75	77.75
December 2005	141.59	130.05	88.90	82.11
Fourth Quarter				
January 2006	152.00	134.75	99.85	88.00
February 2006	171.00	148.05	111.50	98.67
March 2006	165.90	148.10	108.39	97.36
2007 Financial Year	175.50	119.10	109.50	66.00
First Quarter				
April 2006	167.85	139.50	109.50	91.79
May 2006	147.00	127.51	96.40	76.90
June 2006	142.50	121.05	86.00	67.42
Second Quarter				
July 2006	134.50	119.10	78.80	66.00
August 2006	139.50	127.00	79.35	73.90
September 2006	140.50	128.50	77.00	69.01
Third Quarter				
October 2006	143.00	132.55	76.70	68.80
November 2006	145.50	127.88	79.95	72.78
December 2006	144.55	131.10	81.90	74.13
Fourth Quarter				
January 2007	161.02	141.50	90.24	79.00
February 2007	175.50	155.50	98.49	85.50
March 2007	171.00	155.50	96.20	84.75
2008 Financial Year	195.02	115.01	113.00	64.53
First Quarter				
April 2007	181.00	164.06	102.30	91.75
May 2007	181.65	163.00	102.29	92.00
June 2007	182.05	167.01	104.25	94.00
Second Quarter				
July 2007	179.00	161.24	104.75	93.25
August 2007	177.73	152.49	99.70	82.50
September 2007	195.02	170.00	105.80	97.57
Third Quarter				
October 2007	187.20	170.10	113.00	101.25
November 2007	180.50	142.00	111.61	82.25
December 2007	159.00	136.54	95.15	75.61

	JSE (ZAR per ordinary share)		NYSE (USD per ADS)	
	High	Low	High	Low
Fourth Quarter				
January 2008	144.58	115.01	82.25	70.57
February 2008	142.90	129.00	76.05	65.00
March 2008	152.45	131.00	76.76	64.53
2009 Financial Year through June 30				
First Quarter				
April 2008	136.50	126.00	70.40	64.05
May 2008	140.00	127.00	73.20	65.77
June 2008	158.00	140.05	78.50	70.58

On June 30, 2008, the last trading price of the ordinary shares as reported by the JSE was R141.50 per share and the last trading price of the ADSs on the NYSE Composite Tape was U.S.\$75.90.

Item 10. Additional information**MEMORANDUM AND ARTICLES OF ASSOCIATION**

Set forth below is a summary of material information relating to Telkom's share capital, including summaries of certain provisions of Telkom's memorandum and articles of association, the South African Companies Act, 61 of 1973, and the Listings Requirements of the JSE. This summary is qualified in its entirety by the provisions of Telkom's memorandum and articles of association and by the applicable provisions of South African law and the Listings Requirements of the JSE. You should refer to the full text of Telkom's memorandum and articles of association, which is incorporated by reference as an exhibit to this annual report.

General

Telkom was incorporated on September 30, 1991, as a public limited liability company registered under the South African Companies Act with registration number 1991/005476/06. Telkom is governed by its memorandum and articles of association and the provisions of the South African Companies Act, 61 of 1973. Telkom is also subject to the Listings Requirements of the JSE and the New York Stock Exchange.

Telkom's main object and business is to supply telecommunications, broadcasting, multimedia technology, information and other related information technology services to the general public.

Share capital

Pursuant to a special resolution passed at a general meeting of Telkom held on January 16, 2003, Telkom's authorized and issued share capital was, with effect from March 4, 2003, altered by the conversion of one ordinary share held by the Government into one class A ordinary share with a par value of R10 and one ordinary share held by Thintana Communications into one class B ordinary share with a par value of R10. Telkom's authorized share capital was R10,000,000,000, divided into 999,999,998 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10, as of March 31, 2006, 2007 and 2008.

In addition to Telkom's one Class A ordinary share and one Class B ordinary share that were issued and outstanding during this period, the following table shows Telkom's issued and outstanding from April 1, 2005 through March 31, 2008:

	Number of shares
Shares issued at April 1, 2005	557,031,819
Shares held in treasury at April 1, 2005	(23,566,248)
Shares outstanding at April 1, 2005	533,465,571
Shares repurchased and cancelled during 2006 financial year	(12,086,920)
Shares vested to employees from treasury during 2006 financial year	29,669
Shares outstanding at March 31, 2006	521,408,320
Shares issued at March 31, 2006	544,944,899
Shares held in treasury at March 31, 2006	(23,536,579)
Shares repurchased and cancelled	(12,089,371) ⁽¹⁾
Shares vested to employees from treasury during 2007 financial year	450,505
Shares outstanding at March 31, 2007	509,769,454
Shares issued at March 31, 2007	532,855,528
Shares held in treasury at March 31, 2007	(23,086,074)
Shares repurchased and cancelled or to be cancelled	(12,071,344)
Shares vested to employees from treasury during 2008 financial year	1,743,875
Shares outstanding at March 31, 2008	499,441,985
Shares held in treasury at March 31, 2008	21,342,199
Shares issued at March 31, 2008	520,784,184

Note:

(1) 1,035,506 of these ordinary shares were cancelled in the 2008 financial year.

Only ordinary shares are listed on the JSE and ADSs listed on the New York Stock Exchange only represent ordinary shares. The class A and B ordinary shares are not listed on any stock exchange.

No alterations to Telkom's share capital occurred during the five years preceding the date of this annual report, other than the alteration of Telkom's authorized and issued share capital on March 4, 2003 and as discussed above.

All of Telkom's issued and outstanding ordinary shares rank equally with each other and are fully paid and not subject to calls for additional payments of any kind. Except as specified in Telkom's articles of association, selected provisions of which are described in this annual report, the class A ordinary share and the class B ordinary share rank equally with the ordinary shares.

Significant shareholder

Pursuant to Telkom's articles of association, a "significant shareholder" is the registered holder of the class A ordinary share or the class B ordinary share and, in addition, of at least 15% of the issued ordinary shares, which percentage will be adjusted from time to time to reflect the dilutive effect of any issuance of new ordinary shares by Telkom after March 4, 2003, provided that the percentage will not be lower than 10%. A significant shareholder has certain specific rights in terms of Telkom's memorandum and articles of association as more fully described below in "Directors" and Item 6. "Directors, Senior Management and Employees – Directors and Senior Management – Reserved Matters." As of the date hereof, the Government is the only significant shareholder.

If, by March 4, 2011, the class A ordinary share and class B ordinary share have not otherwise been converted into ordinary shares under the terms of Telkom's articles of association, they will automatically be so converted and the rights of the holders of the class A ordinary share and class B ordinary share, including any rights as significant shareholders, will be terminated under Telkom's articles of association.

Dividends

Telkom's shareholders, in a general meeting, or its board, from time to time, may declare a dividend to be paid to the registered holders of one or more classes of shares; provided that Telkom's shareholders may not declare a greater dividend in a general meeting than is recommended by the board and provided further that no dividend may be declared to a holder of the class A ordinary share or class B ordinary share, unless the same dividend is declared to holders of all ordinary shares. In addition, the declaration or distribution of dividends or other distributions must be approved by the board as a reserved matter. See Item 6. "Directors, Senior Management and Employees – Directors and Senior Management – Reserved Matters".

Pursuant to Telkom's articles of association, dividends on ordinary shares will not bear interest. Dividends are declared payable to shareholders registered as such on a date subsequent to the date of publication of the announcement of the declaration of the dividend. This date may not be sooner than 14 days after the date of such publication. All unclaimed dividends may be invested or otherwise utilized by the board for Telkom's benefit until claimed, provided that dividends unclaimed after a period of three years shall be forfeited. Forfeited dividends revert to Telkom or its assigns.

Any dividend or other sum payable in cash to a shareholder may be transmitted by ordinary post to the address of the shareholder recorded in the register or any other address the shareholder may previously have given to Telkom in writing or by electronic transfer to such bank account as the shareholder may previously have given to Telkom in writing. Telkom will not be responsible for any loss in transmission. Subject to the approval of shareholders in a general meeting, any dividend may be paid and satisfied, either wholly or in part, by the distribution of specific assets as the board may determine and direct at the time of declaring the dividend.

Any cash dividends paid by Telkom will be declared in South African Rands. The shareholders in a general meeting, or the board of directors, may at the time of declaring a dividend, stipulate that the dividend be paid to shareholders having registered addresses outside South Africa or who have given written instructions requesting payment at addresses outside South Africa, shall be paid in a currency other than South African currency. Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the ordinary shares underlying the ADSs, subject to the terms of the deposit agreement. Cash dividends paid in Rands will be converted by the depositary to Dollars and paid by the depositary to holders of ADSs, net of conversion expenses of the depositary, in accordance with the deposit agreement, a copy of which is incorporated by reference to Exhibit 2.2 to this annual report.

Voting rights

Subject to any rights or restrictions attached to any class of shares, every shareholder present at a general meeting in person, by proxy or by representation will, on a show of hands, have one vote only and, in the case of a poll, that proportion of the total votes which the aggregate amount of the nominal value of the shares held by that shareholder bears to the aggregate of the nominal value of all the shares issued by Telkom. For a description of shareholders' rights to request a poll, see Item 10. "Additional Information – Memorandum and Articles of Association – General Meetings of Shareholders". A shareholder is entitled to appoint a proxy to attend, speak and vote at any meeting on the shareholder's behalf. The proxy need not be a shareholder of Telkom.

Issue of additional shares and pre-emptive rights

Subject to the provisions of the South African Companies Act, 61 of 1973, the JSE Listings Requirements and any rights or restrictions attached to any class of shares, shareholders in a general meeting may authorize the board to allot and issue shares or grant options over unissued shares to such persons at such times, and generally on such terms and conditions, and for such consideration, whether payable in cash or otherwise, as it may decide. Telkom's shareholders granted to the board the authority to allot and issue up to 22,281,272, representing 4% of Telkom's issued ordinary share capital, ordinary shares to the participants under Telkom's conditional share plan in a general meeting held on January 27, 2004. There may not be any increase or reduction in Telkom's issued share capital or that of any of its subsidiaries without the authorization of the board as a reserved matter. See Item 6. "Directors, Senior Management and Employees – Directors and Senior Management – Reserved Matters." No change in the number of issued class A ordinary shares or class B ordinary shares may be made without the approval of the holder of the class A ordinary share and class B ordinary share, respectively.

The Listings Requirements of the JSE require Telkom's unissued ordinary shares to be offered first to existing shareholders in proportion to their holdings of ordinary shares unless these shares are issued for the acquisition of assets. The shareholders may, however, grant either a general approval in a general meeting authorizing the directors to issue ordinary shares for cash or a specific approval for a particular issue of ordinary shares, without first offering them to existing shareholders. Issues of ordinary shares for cash pursuant to a general approval in the aggregate in any one financial year may not exceed 15% of the issued share capital of that class. The maximum discount at which securities may be issued under a general approval is 10% of the weighted average trading price of those securities over 30 business days on the JSE prior to the date that the price of the issue is determined or agreed by the directors. A specific approval to issue ordinary shares is subject to, among other things, the disclosure of the number, or maximum number, of securities to be issued and disclosure of whether the discount at which the securities are to be issued is unlimited and, if not, the limit. A general and specific approval are each subject to the requirement of approval of a 75% majority of votes cast by shareholders present or represented by proxy at a general meeting, excluding, in the case of a specific approval, any parties and their associates participating in the specific issue for cash. As of the date hereof, except for the authority referred to above, no general or specific approval authorizing the directors to issue shares for cash has been granted to the board by the shareholders of Telkom.

Subject to the South African Companies Act, 61 of 1973, the directors or Telkom's shareholders may resolve in a general meeting to utilize all or any part of Telkom's reserves, or any amount available for distribution as a dividend and not required for the payment or provision of dividends on preference shares, to pay for Telkom's authorized but unissued shares to be issued as fully paid capitalization shares to shareholders entitled to receive such distributions as a dividend.

Transfer of shares

Telkom's articles of association do not contain any restriction on the right to transfer ordinary shares, except as described below. Ordinary shares may be transferred by an instrument in writing in any usual common form or in such other form as the board of directors may approve if such transfer does not arise pursuant to a trade of such shares on the JSE. The transferor will be deemed to remain the holder of the ordinary shares until the name of the transferee is entered in Telkom's share register in respect of the transferred ordinary shares. Every instrument of transfer presented for registration must be accompanied by the certificate representing the ordinary shares to be transferred and/or such other evidence Telkom may require to prove the title of the transferor or the transferor's right to transfer the ordinary shares.

Although shareholders are entitled to hold their ordinary shares in certificated form, ordinary shares may only be traded on the JSE if they have been dematerialized through Share Transactions Totally Electronic Limited, or STRATE. A dematerialized share is not evidenced by a share certificate and may not be transferred by an instrument in writing, but is represented and transferred by means of electronic book entries.

The class A share is not transferable to any transferee, except to an eligible Ministry, as defined in the articles of association, without the written consent of the class B shareholder. If the class A share is to be transferred to an eligible Ministry, it may be so transferred only if it is transferred together with as many shares as would be sufficient to constitute the transferee a significant shareholder without taking account of any other shares already held by or on behalf of such transferee at the time of the actual delivery of the class A share to the transferee pursuant to the applicable underlying contract, and only after consultation with the class B shareholder. The class A share will be converted into an ordinary share on March 4, 2011 or if, at any time before then, it ceases to be held by the Minister, as defined in the articles of association, or the class B share is converted into an ordinary share.

The class B share, including the rights attached to it, may be transferred to a transferee only if it is transferred together with as many shares as would be sufficient to constitute the transferee a significant shareholder without taking account of any other shares already held by or on behalf of such transferee at the time of the actual delivery of the class B share to the transferee pursuant to the applicable underlying contract, and only after consultation with the class A shareholder. The class B share will be converted into an ordinary share on March 4, 2011 or if, at any time before then, the class B shareholder ceases to hold at least 5% of Telkom's issued shares.

Disclosure of interest in shares

Pursuant to the South African Companies Act, 61 of 1973, registered shareholders are required at the end of every calendar quarter to disclose to the issuer the identity of each other person who has a beneficial interest in the shares held by the registered holder and the number and class of those shares. Moreover, an issuer of shares may, by notice in writing, require a person who is a registered holder of, or whom the issuer knows or has reasonable cause to believe, has a beneficial interest in, a share issued by the issuer to identify to the issuer the person on whose behalf a share is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of shares are obliged to establish and maintain a register of the disclosures described above and to publish in their consolidated annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of shares of that class issued by the issuer together with the extent of those beneficial interests.

Register of members

Telkom keeps a register of its members, being shareholders whose names have been included in this register, in South Africa. Telkom may keep a branch share register in any foreign country, subject to the approval of the South African Reserve Bank.

General meetings of shareholders

Telkom is required by the South African Companies Act, 61 of 1973, to hold an annual general meeting not later than nine months after the end of every financial year and within 15 months after the date of its last preceding annual general meeting. The board may convene a general meeting whenever it thinks fit and must do so on the request of 100 shareholders or of shareholders holding, at the date of request, not less than one-twentieth of shares carrying voting rights.

Telkom is required by the South African Companies Act, 61 of 1973, to provide at least 21 “clear days” intervening notice for annual general meetings and for general meetings at which special resolutions are proposed, and at least 14 “clear days” intervening notice for all other general meetings. “Clear days” exclude the date on which notice is given, and the date on which the meeting is held.

A holder of shares may by notice require Telkom to record an address within South Africa which shall be deemed to be his or her address for the purpose of the service of notices. Telkom’s articles of association require notices of general meetings to be in writing and to be given or served on any shareholder either by sending the notice, or a message advising that the notice is available on a website and containing the address of such website by electronic mail or telefacsimile to an electronic mail address or telefacsimile number notified to Telkom for this purpose. Alternatively, the written notice may be given by delivery in person or by sending it through the post, properly addressed, to a shareholder at his or her address shown in the register of shareholders or to a beneficial holder of Telkom’s shares at the address which has been disclosed to Telkom and recorded in its register of such disclosures. Notice may be given to any beneficial holder of Telkom’s shares who has not disclosed his or her address, electronic mail address or telefacsimile number to Telkom, by publishing that notice or an advertisement that such notice is available on a website, in the South African Government Gazette and any newspaper determined by Telkom’s directors. Any notice to shareholders must simultaneously be given to the secretary or other suitable official of any recognized stock exchange on which Telkom’s shares are listed in accordance with the requirements of the stock exchange. Every notice shall be deemed to have been received on the date on which it is so delivered and, if it is sent by post, on the day on which it is posted. If it is published in the South African Government Gazette or if it is advertised in the Government Gazette, it is deemed to have been received on the date it appears in the Government Gazette. If it is sent by electronic mail or telefacsimile, it is deemed to have been sent on the day it is sent or transmitted.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. A quorum is at least three shareholders present in person or, in the case of a shareholder which is a company, by representation, and entitled to vote, provided that no quorum will be constituted if the class A shareholder and class B shareholder are not duly represented. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting will stand adjourned to the same day in the next week, or if that day is a South African public holiday or a Saturday or Sunday, the next succeeding day other than a South African public holiday, Saturday or Sunday, at the same time and place. The quorum at the adjourned meeting shall be three shareholders present in person or by representation. If a quorum at the initial meeting was not established because of the absence of the class A shareholder or class B shareholder, the presence of the absent shareholder is not required to establish a quorum at the adjourned meeting. In order to pass a special resolution, shareholders holding in the aggregate not less than one fourth of the total votes of all shareholders entitled to vote must be present in person or by proxy at the meeting.

At a general meeting, a resolution put to the vote will be decided by a show of hands unless a poll is demanded by:

- the chairman of the meeting;
- not less than five shareholders having the right to vote at such meeting; or
- a shareholder or shareholders representing not less than one tenth of the total voting rights of all shareholders having the right to vote at the meeting or a shareholder or shareholders entitled to vote and holding in aggregate not less than one tenth of Telkom’s issued share capital.

Resolutions will be carried by a majority of the votes recorded at the meeting except in the case of a special resolution which must be passed either on a show of hands, by not less than three fourths of the number of Telkom's shareholders entitled to vote who are present in person, by proxy or by representation or, where a poll has been demanded, by not less than three fourths of the total votes to which the shareholders present in person, by proxy or by representation are entitled.

Annual report and accounts

Telkom's board is required to keep such accounting records and books of account as are prescribed by the South African Companies Act, 61 of 1973. Generally, no shareholder, other than a director, has any right to inspect any of Telkom's accounting record books, accounts or documents.

The board is required, in respect of each of Telkom's financial years, to prepare annual consolidated financial statements and present them before the annual general meeting.

Pursuant to the Listings Requirements of the JSE, unaudited interim reports must be distributed to all shareholders within three months after the end of the first six months of Telkom's financial year.

Telkom's consolidated financial statements must, in conformity with IFRS, fairly present the state of affairs and business of Telkom and all of its consolidated subsidiaries at the end of the financial year concerned and the profit or loss of Telkom and all of its consolidated subsidiaries for that financial year.

Changes in capital

Telkom may from time to time by special resolution:

- consolidate, divide or sub-divide all or any part of Telkom's issued or unissued capital;
- increase or cancel all or any part of Telkom's unissued capital;
- convert any of Telkom's shares, whether issued or not, into shares of another class;
- convert all or any of Telkom's paid-up shares into stock and reconvert such stock into paid-up shares; or
- convert any shares having a par value into shares having no par value and vice versa.

Telkom may from time to time reduce its issued share capital, share premium, stated capital, reserves and/or any capital redemption reserve fund with the approval of an ordinary resolution of Telkom's shareholders in a general meeting and with a resolution of Telkom's directors. Any increase or reduction in Telkom's issued share capital or that of any of Telkom's subsidiaries must be approved by directors as a reserved matter. See Item 6. "Directors, Senior Management and Employees – Directors and Senior Management – Reserved Matters".

Variation of rights

Whenever Telkom's capital is divided into different classes of shares, the rights attached to any class of shares in issue may be varied, modified or abrogated by special resolution, provided that no variation that adversely affects those rights may be made without the written consent or ratification of the holders of three fourths of the issued shares of that class or a resolution passed in the same manner as a special resolution at a separate general meeting of the holders of such shares.

The affirmative vote or consent of the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be, is required for any amendment, alteration or cancellation of any of the provisions of Telkom's memorandum and articles of association that would alter or change the powers, preferences or special rights of the class A ordinary share or class B ordinary share or the holder of the class A ordinary share or class B ordinary share, as the case may be, so as

to affect either adversely. Telkom's memorandum and articles of association further require Telkom to obtain written consent from the Government before issuing any securities or amending any existing securities in a manner that would adversely affect the Government's right under a special condition set forth in Telkom's memorandum of association, including the creation of a new class of shares or the amendment of the rights attached to an existing class of shares to provide them with rights superior to or equal to or adversely affecting the rights of Government under this condition. This special condition provides, among other things, that Telkom must obtain written consent from the Government before:

- taking any action that would result in Telkom's ceasing to provide telecommunications services under its public switched telecommunications services license in the Republic of South Africa; or
- disposing of assets, the effect of which would materially impair Telkom's ability to fulfill its obligation under its public switched telecommunications services license.

The rights conferred upon the holders of the shares of any class will be deemed not to be directly or indirectly adversely affected by the creation or issue of further shares ranking equally with them or the cancellation of any shares of any other class.

Distribution of assets on liquidation

If Telkom is liquidated, whether voluntarily or compulsorily, the assets remaining after the payment of all of Telkom's liabilities and the costs of winding-up shall be distributed among the shareholders in proportion to the numbers of shares held by them, subject to the rights of any shareholders to whom shares have been issued on special conditions and subject to Telkom's right to set-off unpaid capital or premium against the liability, if any, of shareholders. Furthermore, with the authority of a special resolution, the liquidator may divide among the shareholders, in specie or kind, the whole or any part of the assets, whether or not those assets consist of property of one kind or different kinds.

Any winding up or liquidation of Telkom must be authorized as a board reserved matter.

See Item 6. "Directors, Senior Management and Employees – Directors and Senior Management – Reserved Matters".

Purchase of shares

The South African Companies Act, 61 of 1973, permits loans by a company to its employees, other than directors, for the purpose of purchasing or subscribing for shares of that company or of its holding company.

The procedure for acquisition by a company of its own shares is regulated both by the South African Companies Act, 61 of 1973, and the Listings Requirements of the JSE. The South African Companies Act, 61 of 1973, provides that a company may, by special resolution, if authorized by its memorandum and articles of association, approve the acquisition of its shares; provided that a company may not make any payment in whatever form to acquire any share issued by that company if there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its debts or if the consolidated assets of the company fairly valued would, after the payment, be less than the consolidated liabilities of the company. The South African Companies Act, 61 of 1973, also provides that:

- a subsidiary may acquire up to a maximum of 10% in the aggregate of the number of issued shares of its holding company, or parent company; and
- a company may make payments to its shareholders if authorized by its memorandum and articles of association, subject to the provisions referred to above relating to its ability to pay debts and solvency.

Under South African law and the Listings Requirements of the JSE, the shareholders in a general meeting may approve a specific acquisition by the company of its issued shares or grant the company a general authority to acquire its issued shares by way of a renewable mandate which is valid until the company's next annual general meeting, provided that such authority may not extend beyond 15 months from the date of the granting of the general authority. The general authority is subject to, among other things, the following:

- the acquisition of ordinary shares must be on the "open market" of the JSE;
- the number of ordinary shares that may be acquired pursuant to the general authority may not, in the aggregate, exceed 20% of Telkom's issued share capital in any one financial year; and
- the ordinary shares may not be acquired at a price that is more than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which the transaction is effected.

At Telkom's annual general meeting held on October 26, 2007, the shareholders of Telkom granted Telkom, through a special resolution, the authority for Telkom or a subsidiary of Telkom to acquire Telkom's issued and outstanding ordinary share capital from time to time, upon such terms and conditions and in such amounts as the directors of Telkom and/or its subsidiaries may from time to time decide, but always subject to the Companies Act, 61 of 1973, as amended, and the listing requirements from time to time of the JSE, which general approval shall endure until the following annual general meeting of Telkom, or 15 months from the date of the resolution, whichever period is shorter. As a result, Telkom is authorized to purchase up to 20% of its issued share capital.

Directors

Pursuant to Telkom's articles of association, the holder of the class A ordinary share and the holder of the class B ordinary share, for so long as they hold the class A ordinary share and the class B ordinary share, respectively, are entitled to appoint directors based on the percentage of the issued ordinary shares owned by them as follows:

- if either shareholder owns at least 25% of the issued ordinary shares, it has the right to appoint five directors, including two executive directors;
- if either shareholder owns at least 20%, but less than 25% of the issued ordinary shares, it has the right to appoint four directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, one executive director;
- if either shareholder owns at least 15%, but less than 20% of the issued ordinary shares, it has the right to appoint three directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, three non-executive directors;
- if either shareholder owns at least 10%, but less than 15% of the issued ordinary shares, it has the right to appoint two directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, two non-executive directors; and
- if either shareholder owns at least 5%, but less than 10% of the issued ordinary shares, it has the right to appoint one director, including, in the case of the Public Investment Corporation, one executive director and, in the case of the Government, one non-executive director.

Neither the holder of the class A ordinary nor the holder of the class B ordinary share will have the right to appoint more than five directors, regardless of their share ownership.

The remaining directors, if any, other than Telkom's chief executive officer who is appointed by Telkom's board of directors, may be appointed by a general meeting. A general meeting is not entitled to fill a vacancy of a director appointed by the Government or the Public Investment Corporation, as holders of the Class A ordinary share and the Class B ordinary share, respectively.

At each of Telkom's annual general meetings, at least one third of Telkom's directors appointed by a general meeting, excluding executive directors, directors appointed by the holder of the class A ordinary share and the holder of the class B ordinary share and any directors appointed by the directors after the conclusion of Telkom's preceding annual general meeting, are required to retire from office but are eligible for re election. The directors to retire are those who have been longest in office or, as between directors appointed by a general meeting who have been in office for an equal length of time, in the absence of agreement, determined by lot. If, after such retirements, there would remain in office any director appointed by a general meeting who would have held office for three years since his last election, he shall also retire at such annual general meeting. In addition, those directors appointed by a general meeting since the last annual general meeting are required to retire from office. A retiring director is eligible for re election. Directors appointed by the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be, can be removed and replaced at any time upon receipt by Telkom of written notice from the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be.

The remuneration of Telkom's directors shall be determined from time to time by its directors, taking into account the recommendations of the remuneration committee appointed by Telkom's directors. Telkom's directors shall be paid all their travelling and other expenses properly incurred by them in the execution of their duties in or about Telkom's business, which are approved or ratified by Telkom's directors.

Any director who serves on any committee, devotes special attention to Telkom's business, goes or resides outside of the Republic of South Africa for any of Telkom's purposes, or performs any services that are outside the scope of ordinary duties of a director, may be paid such extra remuneration or allowances as Telkom's directors, excluding the director in question, may determine.

Telkom's articles of association provide that a director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he or she has a material interest, other than by virtue of his or her interest in securities in Telkom and in certain other limited circumstances.

A director may not be counted in the quorum of a meeting in relation to any resolution in which he or she is not permitted to vote.

The directors are not obliged to hold any qualification shares.

Telkom's articles of association grant a director appointed by the Government, as a significant shareholder, the right, for so long as it is a significant shareholder, to nominate certain of the directors that Telkom is entitled to appoint to the boards of directors of its subsidiaries and Vodacom.

The number of directors that the Government is entitled to nominate is based on the ratio of the number of ordinary shares owned by the Government to the sum of the ordinary shares owned by the Government and Black Ginger, a wholly owned subsidiary of the Public Investment Corporation, as the class B shareholder.

If the class A ordinary share and/or class B ordinary share are converted into ordinary shares, the rights of the Government and/or Black Ginger as beneficial holders of the class A ordinary share and class B ordinary share, respectively, including their rights of appointment of directors to Telkom's board of directors and the boards of directors of Telkom's subsidiaries and Vodacom, will be terminated.

Borrowing powers

The directors may exercise all of Telkom's powers to borrow money and to mortgage or encumber Telkom's property or any part thereof and to issue debentures, whether secured or unsecured, whether outright or as security for any debt, liability or obligation of Telkom or of any third party. For this purpose, the borrowing powers of the directors are unlimited. Telkom's borrowing powers have not

been exceeded during the past three years.

Non-South African shareholders

Other than as described under “Transfer of Shares,” there are no limitations in Telkom’s memorandum or articles of association on the right of non-South African shareholders to hold or exercise voting rights attaching to any of its ordinary shares.

Rights of minority shareholders and fiduciary duties

Majority shareholders of South African companies have no fiduciary obligations under South African common law to minority shareholders. However, under provisions in the South African Companies Act, 61 of 1973, a shareholder may, under certain circumstances, seek relief from the court if the shareholder has been unfairly prejudiced. These provisions are designed to provide relief for oppressed shareholders without necessarily overruling the majority’s decision. There may also be common law and statutory personal actions available to a shareholder of a company.

The fiduciary obligations of directors may differ from those in the United States and certain other countries. Under South African law, the directors of a company are required to adhere to and act in accordance with two main fiduciary duties, the duty to act in the best interests of the company and the duty to act with due care and skill. The fiduciary duty to act in the best interests of the company includes a duty that the directors must avoid a conflict between their personal interests and the interests of the company, prohibits the directors from using their fiduciary position for personal benefit, prohibits the directors from exceeding the powers of the company and prohibits the directors from exercising any power for an improper or collateral purpose. The fiduciary duty to act with due care and skill includes the requirement that the directors must not act negligently, fraudulently or recklessly and must exercise judgment as to what is in the best interests of the company. South African law provides for personal liability of directors if they conduct the business of the company fraudulently or recklessly. Under Delaware law, the fiduciary duties of directors consist of the duty of care, the duty of loyalty and the duty of disclosure. The fiduciary duty of care requires directors to inform themselves of all material information reasonably available to them prior to making a business decision. The fiduciary duty of loyalty prohibits directors from using their position of trust and confidence to further their private interests. The fiduciary duty of disclosure requires directors to disclose to stockholders all material facts germane to a transaction involving stockholder approval.

The South African Corporate Laws Amendment Act, 24 of 2006

Introduction

The South African Corporate Laws Amendment Act, or Corporate Laws Amendment Act, became effective on December 14, 2007. The principal provisions of the Corporate Laws Amendment Act affect:

- the auditing and accounting requirements for South African companies;
- the prohibition on the provision by South African companies of financial assistance for the acquisition of their own shares;
- the requirements for a prospectus; and
- the requirement for shareholder approval of disposals by South African companies of their assets.

Accounting and auditing requirements

For accounting and auditing purposes, all South African companies are classified as either “widely held” or “limited interest” companies. A South African company is classified as a widely held company if:

- its articles of association provide for an unrestricted transfer of its shares;
- it is permitted by its articles of association to offer its shares to the public;
- it decides by special resolution to be a “widely held” company; or
- it is a subsidiary of a widely held company.

Any South African company that does not fall within the category of a “widely held” company is categorized as a “limited interest” company. The purpose behind the new classification is to apply more stringent accounting and auditing requirements to “widely held” companies on the assumption that the public has a greater interest in the affairs of such companies.

The Corporate Laws Amendment Act’s enhanced provisions on accounting and auditing requirements applied to “widely held” companies include:

- formalizing the role of audit committees and mandating the rotation of auditors;
- providing new requirements for financial statements and other financial reports and establishing a Financial Reporting Standards Council to set financial reporting standards and impose new sanctions to false or misleading financial reports; and
- establishing a Financial Reporting Investigations Panel to investigate non-compliance with the financial reporting standards.

Audit committees and auditors

Every “widely held” company is now obliged to appoint an audit committee for each financial year, unless it is a subsidiary and its holding company’s audit committee discharges the audit committee function for the subsidiary, or it is exempted from this requirement by proclamation of the South African Minister of Trade and Industry in the South African Government Gazette. The audit committee is required to assume the functions of the board with respect to the appointment, fees and terms of engagement of the auditor. The audit committee must also regulate the provision by the auditor of any non-audit services to the company, report in the financial statements on its discharge of its functions and on the independence of the auditor, deal with complaints about the accounting, auditing and financial reporting functions within the company, and perform any other functions determined by the board.

The audit committee must have at least two members and consist only “of non-executive directors” who act “independently” (although others may be asked to attend a meeting). The auditor must meet with the audit committee not more than one month before the board meets to approve the company’s financial statements. A “non-executive director” is one who is not an individual “involved in the day-to-day management of the business and has not in the past three financial years been a full-time salaried employee of the company or its group” and is not a member of the immediate family of an individual. A director only qualifies as “independent” if he/she “expresses opinions, exercises judgement and makes decisions impartially” and “is not related to the company or any shareholder, supplier, customer or other director of the company in a way that would lead a reasonable and informed third party to conclude that the integrity, impartiality or objectivity of that director is compromised by that relationship.”

The auditor appointed to each “widely held” company must be an individual or a firm in respect of which an individual has been designated as the auditor, who may not hold that position for more than five consecutive financial years. No appointment of an auditor will be effective unless the audit

committee is satisfied with the independence of the auditor. The Independent Regulatory Board for Auditors is obliged to prohibit an auditor from providing to a “widely held” company, among other things, non-audit services that will be subject to his/her own auditing.

“Limited interest” companies are not affected by these requirements.

Financial reporting standards

The new Financial Reporting Standards Council is charged with establishing financial reporting standards for “widely held” companies, which must be in accordance with IFRS, and developing accounting standards for “limited interest” companies, which are intended to be less onerous than the standards for “widely held” companies.

The publication of materially incomplete financial statements or financial statements which do not comply with the South African Companies Act, as amended by the Corporate Laws Amendment Act, constitute an offense by the company and every director or officer who is a party to that publication. Any person who was a party to the preparation, approval, publication, issue or supply of materially false or misleading financial statements or other financial reports will also be guilty of an offense if that person knows or ought reasonably to suspect that it is false or misleading.

Investigations into non-compliance

The Corporate Laws Amendment Act also establishes a Financial Reporting Investigations Panel to improve reliability of financial reports by investigating alleged non-compliance and recommending appropriate measures for rectification or restitution. The Financial Reporting Investigations Panel is entitled to determine whether companies should pay an administrative penalty, revise and republish their financial reports or take any other remedial action. If a company does not agree with the South African Minister of Trade and Industry to follow the Financial Reporting Investigation Panel’s determination, then the South African Minister of Trade must refer the matter to the South African National Director of Public Prosecutions.

Financial assistance

The Corporate Laws Amendment Act contains an exception to previous prohibitions contained in the South African Companies Act to allow a South African company to provide financial assistance for the purchase of or subscription for its own shares or those of its holding company if the company’s board is satisfied that:

- subsequent to the transaction, the consolidated assets of the company will, fairly valued, be more than its consolidated liabilities; and
- subsequent to providing the assistance and for the duration of the transaction, the company will be able to pay its debts as they become due in the ordinary course of business.

In addition, the terms on which the assistance is given must be sanctioned by a special resolution of the shareholders of the company.

Prospectus requirements

The Corporate Laws Amendment Act alters the requirements for a prospectus to accompany an offer on shares to the public by providing that, in addition to the specifications of Schedule 3 to the South African Companies Act, the prospectus must contain “all information that an investor may reasonably require to assess (a) a company in which a right or interest is to be acquired, its assets and liabilities, financial positions, profits and losses, cash flow and prospects and (b) the shares and rights attached to them.

This formulation is broader than the prior requirement for “a fair presentation of the state of the affairs of the company”, but the Corporate Laws Amendment Act does allow the South African Registrar to grant an exception to a company to omit information from the prospectus if the publication thereof would be unnecessarily burdensome, seriously detrimental or against the public interest and users will not be unduly prejudiced by the omission.

Disposals of assets

Prior to the implementation of the Corporate Laws Amendment Act, directors of a company could, under section 228 of the South African Companies Act, dispose of the whole or substantially the whole of the undertaking of a company or the whole or the greater part of the assets of a company only if the shareholders authorized such disposal by way of an ordinary resolution. The Corporate Laws Amendment Act affords greater protection to minority shareholders as it provides that the directors have no power to dispose of the whole or the greater part of the assets or undertaking of a company unless the shareholders have authorized such disposal by way of a special resolution.

If, in relation to the consolidated financial statements of a holding company, a disposal by any of its subsidiaries would constitute a disposal of the whole or the greater part of the assets or undertaking of the holding company, such disposal will require a special resolution of the holding company.

This approval is not required for disposals between a wholly owned subsidiary and its holding company or between two wholly owned subsidiaries of the same holding company.

Comparison of shareholders’ rights under South African and Delaware law

The following describes some of the material differences between the rights of shareholders under South African and Delaware law.

Voting rights, generally

South Africa

Under South African law, every shareholder in a public company has a vote in respect of the shares held by such shareholder in the issued share capital of the company. The number of votes exercisable by that shareholder, if the share capital is divided into shares of par value as Telkom’s are, is that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by that shareholder bears to the total amount of the nominal value of all the shares in the company. If, however, the share capital is divided into shares of no par value, a shareholder is entitled to one vote in respect to each share held. Any shareholder of a company entitled to attend and vote at a meeting of the company is entitled to appoint another person or persons, whether a member or not, to act for such shareholder by proxy.

Delaware

Under Delaware law, each stockholder is entitled to one vote for each share of capital stock held by the stockholder, unless otherwise provided in the certificate of incorporation of the company. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for the stockholder by proxy for up to three years from its date, or for a longer period if the proxy specifically provides.

Pre-emptive rights

South Africa

Under South African law, no shareholder shall have preemptive rights to purchase additional securities of a company unless the organizational documents of the company expressly grant preemptive rights. However, the Listings Requirements of the JSE require that unissued ordinary shares of a company listed on the JSE be offered first to existing shareholders in proportion to their holdings of shares of that company unless the shares are issued for the acquisition of assets or the shareholders waive their pre-emptive rights by way of approval of an issue for cash. See this Item "Memorandum and Articles of Association – Issue of Additional Shares and Preemptive Rights".

Delaware

Delaware law provides that no stockholder shall have preemptive rights to purchase additional securities of the company unless the certificate of incorporation of the company expressly grants these rights.

Cumulative voting

Cumulative voting is a system for electing directors whereby the number of votes a shareholder is entitled to vote in an election of directors equals the number of shares held by the shareholder multiplied by the number of open directorships. Under cumulative voting, a shareholder may cast all or any number of the shareholder's votes for a single candidate or for any number of candidates.

South Africa

Under South African law, shareholders do not have the right to elect directors by cumulative voting. The number of votes that a shareholder may cast in respect of the appointment of each individual director equals the number of votes generally exercisable by that shareholder. South African law provides that at a general meeting of a company, a motion for the appointment of two or more persons as directors of the company by a single resolution shall not be moved, unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it.

Delaware

Under Delaware law, stockholders do not have the right to elect directors by cumulative vote unless the right is granted in the company's certificate of incorporation.

Shareholder approval of corporate matters by written consent

South Africa

Under South African law, any action required to be taken at any annual or other general meeting of a company, other than actions requiring a special resolution, may be taken without a meeting, without prior notice and without a formal vote, if the required written consent setting forth that action to be taken and waiving the required prior notice is signed by all shareholders.

Delaware

Under Delaware law, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior written notice and without a vote, if a written consent setting forth the action to be taken is signed by the number of holders of outstanding stock that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote thereon were present and voted, unless otherwise provided in the certificate of incorporation of the company. Prompt notice of the taking of any action by less than unanimous consent must be given to shareholders who did not consent to the action.

Anti-takeover provisions

South Africa

Under the South African Companies Act, 61 of 1973, the South African Securities Regulation Panel, or SRP, regulates certain transactions and schemes aimed at the take-over of companies such as Telkom in order to ensure the equal treatment of shareholders. For this purpose, the SRP has promulgated a code, which is loosely based on the U.K. City Code on Take-Over and Mergers, setting out general principles and specific rules regulating take-overs and mergers. The SRP requires that a mandatory offer be made to shareholders, at specified prices, in circumstances where:

- the offeror acquires more than 35% of the votes exercisable at a general meeting of a company, if the offeror, prior to the acquisition, held less than 35% of such votes; or
- the offeror acquires more than 5% of such votes during any twelve month period, if the offeror, prior to the acquisition, held more than 35%, but less than 50% of such votes; or
- the transaction involves a disposal of the whole or the greater part of the undertaking of the company, or the whole or the greater part of the assets of the company.

The SRP code also sets out comprehensive rules regulating the procedures to be followed and the manner in which the offer should be made. In addition, under the JSE Listings Requirements, a company listed on the JSE is required to obtain shareholder approval for any transaction between that company and a “material” shareholder if the JSE considers that shareholder to have a significant interest in or influence over the company. A “material” shareholder is any person who is or within twelve months preceding the date of the transaction was entitled to exercise or controls the exercise of 10% or more of the votes permitted to be cast at a general meeting of the company.

Delaware

Delaware law contains a business combination statute that protects Delaware companies from hostile takeovers and from actions following the takeover by prohibiting some transactions once an acquirer has gained a significant holding in the company.

Section 203 of the Delaware General Corporation Law prohibits “business combinations”, including mergers, sales and leases of assets, issuances of securities and similar transactions by a company or a subsidiary with an interested stockholder that beneficially owns 15% or more of a company’s voting stock, within three years after the person becomes an interested stockholder, unless:

- the transaction that will cause the person to become an interested stockholder is approved by the board of directors of the target prior to the transaction;
- after the completion of the transaction in which the person becomes an interested stockholder, the interested stockholder holds at least 85% of the voting stock of the company not including shares owned by persons who are directors and also officers of interested stockholders and shares owned by specified employee benefit plans; or
- after the person becomes an interested stockholder, the business combination is approved by the board of directors of the company and authorized at an annual, or special, meeting of stockholders by the affirmation vote of the holders of at least 66.67% of the outstanding voting stock, excluding shares held by the interested stockholder.

A Delaware company may elect not to be governed by Section 203 by a provision contained in the original certificate of incorporation of the company or an amendment to the original certificate of incorporation or to the bylaws of the company, which amendment must be approved by a majority of the shares entitled to vote and may not be further amended by the board of directors of the company. This amendment is not effective for companies with voting stock listed on a national securities exchange until twelve months following its adoption.

Shareholder access to and inspection of corporate records

South Africa

According to South African law, the register of members of a company is open to inspection by any shareholder or his or her duly authorized agent. Any person may apply to a company for a copy of or extract from the register of shareholders, and the company shall either furnish such copy or extract or afford such person adequate facilities for making such copy or extract. If access to the register of shareholders for the purpose of making any inspection or any copy or extract or facilities for making any copy or extract is refused or not granted or furnished within fourteen days after a written request to that effect has been delivered to the company, the company, and any director or officer of the company who knowingly is a party to the refusal or default, shall be guilty of an offense. The person denied access may apply to court for relief.

In addition, the minute book of a company, recording the proceeds at meetings of the company, must be open to inspection by members of the company at the registered office of the company. Any member of a company shall be entitled to be furnished, within seven days after making a written request therefore to the company, with a copy of the minutes of the proceedings at any general meeting of the company, certified by the secretary or a director of the company as correct, at a nominal charge.

Delaware

Delaware law allows any stockholder to inspect and make copies of the stock ledger and the other books and records of a Delaware company for a purpose reasonably related to that person's interest as a stockholder. If the company refuses to permit an inspection or does not reply to the demand within five business days, the stockholder may apply to the Delaware Court of Chancery for an order to compel the inspection.

Duties of directors and officers

South Africa

According to South African law, the business and affairs of every company are managed by the board of directors as provided in the company's organizational documents. The board of directors of a public company shall consist of at least two members, each of whom shall be a natural person. The JSE listing requirements require that the minimum number of directors of a listed company shall be four. The actual number of directors shall be fixed by the company's organizational documents. Directors need not be shareholders unless required by the organizational documents. The organizational documents may prescribe other qualifications for directors as well.

According to South African law, a public company such as Telkom is required to appoint a company secretary and a public officer. In addition, a public company may appoint further officers in accordance with its organizational documents with such titles and duties as may be set out in the organizational documents or as may be determined by the company. Any share certificates signed by two directors of the company, or one director and one other officer of the company authorized by the directors for such purpose, evidences title to the shares concerned. The duties of the company secretary of a company include ensuring that minutes of all shareholders' meetings, directors' meetings and meetings of any board committees are properly recorded.

Delaware

According to Delaware law, the business and affairs of every company are managed by or under the direction of the board of directors as provided in the company's certificate of incorporation. The board of directors consists of one or more members, each of whom is a natural person. The actual number of directors shall be fixed by the company's bylaws or in its certificate of incorporation. Directors need not be stockholders unless required by the bylaws or certificate of incorporation. The bylaws or certificate of incorporation may prescribe other qualifications for directors as well.

Delaware law also requires every company to have officers with titles and duties as are stated in the bylaws or in a resolution of the board of directors, which is not inconsistent with the bylaws and as may be necessary to enable the company to sign instruments and stock certificates. One of the officers shall have the duty to record the proceedings of the meetings of the stockholders and directors. Officers are chosen in the manner and hold their offices for the terms prescribed by the bylaws or determined by the board of directors or other governing body.

Meetings

South Africa

South African law requires every company to hold an annual general meeting not more than nine months after the end of every financial year of the company and within not more than fifteen months after the date of the last annual general meeting of the company. If for any reason an annual general meeting of the company is not or cannot be held in this manner, the South African Registrar of Companies may, on application by the company or any shareholder or its legal representative, call or direct the calling of a general meeting of the company which shall be deemed to be an annual general meeting. South African law requires that the annual financial statements of the company as well as group financial statements be considered at the annual general meeting. Furthermore, the company's auditor must be appointed at the annual general meeting and the meeting must address the business which is required to be dealt with pursuant to the organizational documents of the company. Directors are appointed by a general meeting, unless otherwise provided in the organizational documents of the company. The JSE Listings Requirements require that the appointment of a director to fill a casual vacancy or as an addition to the board must be confirmed at the next annual general meeting of the company.

General meetings of the company may, except insofar as is otherwise provided in the organizational documents of the company, be called by the board of directors in accordance with the organizational documents of the company or by two or more shareholders holding not less than one tenth of its issued share capital.

Delaware

Under Delaware law, unless directors are elected by written consent in lieu of an annual meeting, an annual meeting of the stockholders shall be held for the election of directors on a date and at a time designated by the company's bylaws. Stockholders may, unless the certificate of incorporation provides otherwise, act by written consent to elect directors; provided, however, that, if such consent is less than unanimous, such action by written consent may be in lieu of holding an annual meeting only if all of the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action. In addition, any other proper business may be transacted at the annual meeting. If an annual meeting is not held within 30 days of the date designated for such a meeting, or is not held for a period of 13 months after the last annual meeting, the Delaware Court of Chancery may summarily order a meeting to be held upon the application of any shareholder or director.

Delaware law also permits special meetings of shareholders to be called by the board of directors and by other persons authorized to do so by the company's certificate of incorporation or bylaws.

Dividends

South Africa

Under South African law, a company may make payments to its shareholders if authorized thereto by its organizational documents. A company may not, however, make any payment, in whatever form, to its shareholders if there are reasonable grounds for believing that:

- the company is or would, after the payment, be unable to pay its debts as they become due in the ordinary course of business; or
- the consolidated assets of the company fairly valued, after the payment, would be less than the consolidated liabilities of the company.

Delaware

Under Delaware law, the directors of a company may declare and pay dividends out of surplus or, when no surplus exists, out of net profits for the fiscal year in which the dividend is declared or the preceding fiscal year, subject to any restrictions in the company's certificate of incorporation.

Dividends may not be paid out of net profits if, after payment of the dividend, the capital of the company would be less than the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

Repurchase or redemption of shares

South Africa

South African law provides that a company may, by special resolution, if authorized by its memorandum and articles of association, repurchase or redeem its shares; provided that a company shall not make any payment to repurchase any shares issued by the company if there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its debts or if the consolidated assets of the company would, after the payment, be less than the consolidated liabilities of the company. A company listed on the JSE is required to comply with any requirements set out in the JSE listings requirements in addition to the requirements listed above.

Delaware

Delaware law permits a company to repurchase or redeem its shares, provided, however, that no company shall do so when the capital of the company is impaired or when the purchase or redemption would cause any impairment of the capital of the company, except that a company may purchase or redeem out of its capital any of its own shares which are entitled upon any distribution of the company's assets, whether by dividend or liquidation, to a preference over another class or series of its stock, or, if no shares entitled to such a preference are outstanding, any of its own shares, if the shares will be retired upon their acquisition and the capital of the company reduced in accordance with Delaware law.

Limitations of liability of directors

South Africa

Under South African law, any provision, whether contained in the organizational documents of a company or in any contract with a company, that purports to exempt any director or officer of the company from any liability which by law would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which the person may be guilty in relation to the company or to indemnify the person against any such liability is void. A company may, however, indemnify a director or officer as described in this Item "Indemnification of officers and directors –South Africa". If, in any proceedings for negligence, default, breach of duty or breach of trust against any director or officer of a company, it appears to the court that the person concerned is or may be liable, but that the person has acted honestly and reasonably, and that, considering all facts and circumstances of the case, including those concerned with the person's appointment, the person ought fairly to be excused for the wrongdoing, the court may relieve the person, either wholly or partly, from liability on terms determined by the court.

Delaware

Delaware law permits a company to include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the company or its shareholders for damages for breach of the director's fiduciary duty, provided that a director's liability shall not be limited:

- for any breach of the director's duty of loyalty to the company or its shareholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law, which concerns unlawful payments of dividends, stock purchases or redemption; or
- for any transaction from which the director derived an improper personal benefit.

Indemnification of officers and directors

South Africa

Under South African law, the organizational documents of a company may contain a provision indemnifying any director or officer or auditor in respect of any liability incurred by such person in defending any proceedings, whether civil or criminal, in which judgment is given in the person's favour, or in which the person is acquitted or the proceedings are abandoned or in connection with any application in which the court relieves the person from liability on the basis that the person acted honestly and reasonably and that the person ought fairly to be excused for negligence, default, breach of duty or breach of trust.

Delaware

Delaware law provides that, subject to certain limitations in the case of derivative suits brought by a company's stockholders in its name, a company may indemnify any individual who is made a party to any third party suit or proceeding on account of being a director, officer, employee or agent of the company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement reasonably incurred by the officer or director in connection with the action, through, among other things, a majority vote of the directors who were not parties to the suit or proceeding, even if less than a quorum, if the individual:

- acted in good faith and in a manner the officer or director reasonably believed to be in or not opposed to the best interests of the company or, in some circumstances, at least not opposed to its best interests; and
- in a criminal proceeding, had no reasonable cause to believe the officer's or director's conduct was unlawful.

To the extent a director, officer, employee or agent is successful in the defense of the action, suit or proceeding, the company is required by Delaware law to indemnify the individual for reasonable expenses incurred thereby.

Material contracts

See Item 4. "Information on the Company – Business Overview – Fixed-line Communications – Fees and tariffs – Interconnection tariffs" and Item 7. "Major Shareholders and Related Party Transactions" for certain material agreements we have entered into.

EXCHANGE CONTROLS

The following is a summary of the relevant material South African exchange control measures, which has been derived from publicly available documents. The following summary is not a comprehensive description of all of the exchange control regulations and does not cover exchange control consequences that depend upon your particular circumstances. We recommend that you consult your own advisor about the exchange control consequences in your particular situation. The discussion in this section is based on current South African laws and regulations. Changes in laws may alter the exchange control provisions that apply to you, possibly on a retroactive basis.

Introduction

Dealing in foreign currency, the export of capital and/or revenue, incurring of liabilities by residents to non-residents and various other exchange control matters in South Africa are regulated by the South African exchange control regime and regulations. The South African exchange control regime forms part of the general monetary policy of South Africa. The South African exchange control regulations are issued pursuant to section 9 of the Currency and Exchanges Act, 9 of 1933. Pursuant to the regulations, the control over South African capital and/or revenue reserves, as well as their accruals and spending, is vested in the Minister of Finance.

The Minister of Finance has delegated the administration of exchange controls to the Financial Surveillance Department, or FSD, formerly known as the Exchange Control Department of the South African Reserve Bank, or Excon, which is responsible for the day to day administration and functioning of exchange controls. The FSD has wide discretion but exercises its powers within certain policy guidelines and issues circulars and rulings from time to time. Within prescribed limits, authorized dealers in foreign exchange, generally commercial and merchant banks, are permitted to deal in foreign exchange in accordance with the provisions and requirements of the rulings and circulars, which contain certain administrative measures, as well as conditions and limits applicable to transactions in foreign exchange, which may be undertaken by authorized dealers. Non-residents have been granted general approval to deal in South African assets and to invest and disinvest in South Africa in terms of the rulings and circulars.

The Republic of South Africa's exchange control regulations provide for restrictions on exporting capital from the Common Monetary Area, consisting of the Republic of South Africa, the Republic of Namibia, and the Kingdoms of Lesotho and Swaziland. Transactions between residents of the Common Monetary Area, on the one hand, including companies, and non-residents of the Common Monetary Area, on the other hand, are subject to these exchange control regulations.

There are many inherent disadvantages of exchange controls including the distortion of the price mechanism, the problems encountered in the application of monetary policy, the detrimental effects on inward foreign investment and the administrative costs associated therewith. The South African Minister of Finance has indicated that all remaining exchange controls are likely to be dismantled as soon as circumstances permit. There has, since 1996, been a gradual relaxation of exchange controls. The gradual approach to the abolition of exchange controls adopted by the Government of South Africa is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time. The stated objective of the authorities is equality of treatment between residents and non-residents with respect to inflows and outflows of capital. The focus of regulation, subsequent to the abolition of exchange controls, is expected to favour the positive aspects of prudential financial supervision.

The present exchange control regime in South Africa is used principally to control cross border capital movements. South African companies are not permitted to maintain foreign bank accounts and, without the approval of the FSD or authorized dealers, as appropriate, are generally not permitted to export capital from South Africa or to hold foreign currency. In addition, South African

companies are required to obtain the approval from the FSD or authorized dealers, as appropriate, prior to raising foreign funding on the strength of their South African balance sheets, which would permit recourse to South Africa in the event of defaults. Where 75% or more of a South African company's capital, voting power, power of control or earnings is directly or indirectly controlled by non-residents, such a company is designated an "affected person" and certain restrictions are placed on its ability to obtain local financial assistance. Telkom is not, and has never been, designated an affected person.

Foreign investment and outward loans by South African companies are also restricted. South African companies are generally not required to repatriate to South Africa profits of foreign operations, but are limited in their ability to utilize profits of one foreign business to finance operations of a different foreign business. However, all dividends received from foreign subsidiaries since October 27, 2004 may be retained abroad and used for any purpose. South African companies establishing subsidiaries, branches, offices or joint ventures abroad are generally required to submit financial statements on these operations to the FSD on an annual basis. As a result, a South African company's ability to raise and deploy capital outside the Common Monetary Area is restricted.

Although exchange controls have been gradually relaxed since 1996, unlimited outward transfers of capital are not permitted at this stage. The Government has announced its intention to remain committed to a gradual approach to exchange control liberalization. Part of this process of gradual exchange control liberalization and financial sector strengthening is the shift to a system of prudential regulation. Prudential regulations are applied internationally to protect policyholders and pensioners from excessive risk, and typically include restrictions on foreign asset holdings. It is not possible to predict when existing exchange controls will be abolished or modified by the South African Government in the future, although some of the more salient changes to the South African exchange control provisions over the past few years have been as follows:

As an interim step towards prudential regulation, institutional investors comprised of retirement funds, long term insurers, collective investment scheme management companies and investment managers are allowed to transfer funds from South Africa for investment abroad, subject to certain limitations as follows:

- The exchange control limit on foreign portfolio investment by institutional investors is applied to an institution's total retail assets.
- The foreign exposure of retail assets may not exceed 20% in the case of retirement funds and long term insurers and 30% in the case of collective investment scheme management companies and investment managers registered as institutional investors for exchange control purposes.
- Institutional investors will, on application, be allowed to invest an additional 5% of their total retail assets by acquiring foreign currency denominated portfolio assets in Africa through foreign currency transfers from South Africa or by acquiring inward listed instruments based on foreign reference assets or issued by foreign entities, listed on the JSE Limited or the Bond Exchange of South Africa.
- Companies wishing to establish new overseas ventures or new ventures in Africa are now permitted to transfer unlimited amounts abroad in order to finance approved investments. However, the approval by the FSD is required in advance and companies will need to comply with the FSD's investment criteria in establishing such new ventures, which investment criteria include, among other things, demonstrating benefit to South Africa and control of the foreign entity. The FSD has, however, reserved the right to stagger capital outflows relating to very large foreign investments in order to manage the potential impact on the foreign exchange market.

- Dividends repatriated from abroad by South African companies during the period February 26, 2003 to October 26, 2004 (dividend credits) automatically form part of domestic funds and may be allowed to be retransferred abroad for the financing of approved foreign direct investments or approved expansions, but may not be transferred abroad for any other purpose.
- A company planning to make new foreign investments not exceeding R50,000,000 per company per calendar year may, subject to certain criteria being met, do so without FSD approval if it obtains approval of an authorized dealer.
- Since October 7, 2004, a South African holding company may retain dividends declared by their offshore subsidiaries offshore, which may be used for any purpose, without any recourse to South Africa. Foreign dividends repatriated to South Africa after October 26, 2004 may be retransferred abroad at any time and used for any purpose, provided there is no recourse to South Africa. Such funds may, however, under no circumstances be utilized to fund investments/loans into the Common Monetary Area for any purpose whatsoever via a roundtripping structure, except if invested in approved inward listed instruments, such as foreign inward listed securities issued on the JSE.
- Remittance of directors' fees payable to persons permanently resident outside the Common Monetary Area may be approved by authorized dealers, pursuant to the rulings.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents in respect of fixed and ascertained future foreign exchange commitments covering the movement of goods.

A system of exchange control allowances for the export of funds when persons emigrate has been in place in South Africa for a number of decades. Persons who emigrate from South Africa are entitled to take limited amounts of money out of South Africa by way of a cash allowance of R500,000 per person which is equal to a travel allowance of R500,000 per adult and R160,000 per child under 18 in a family and a foreign capital allowance (R2,000,000 per person with a limit of R4,000,000 per family unit) and may export certain items. The balance of the emigrant's funds are blocked and held under the control of an authorized dealer. These blocked funds may only be invested in prescribed investments including:

- blocked current, savings, interest bearing deposit accounts in the books of an authorized dealer in the banking sector;
- securities listed on the JSE and financial instruments listed on the Bond Exchange of South Africa which are deposited with an authorized dealer and not released except temporarily for switching purposes, without the approval of the FSD. Authorized dealers must at all times be able to demonstrate that listed securities or financial instruments which are dematerialized or immobilized in a central securities depository are being held subject to the control of the authorized dealer concerned;
- collective investment schemes; or
- the South African Futures Exchange.

Aside from the investments referred to above, blocked Rands may only be utilized for very limited purposes. Capitalization shares and dividends declared out of capital gains or out of income earned prior to emigration remain subject to the blocking procedure. Emigrants' blocked assets may be unwound and such emigrants are entitled, on application to the FSD and subject to an exiting schedule and an exit levy of 10%, to exit such blocked assets from South Africa.

Sales of shares

Under present regulations, our ordinary shares and ADSs are freely transferable outside the Common Monetary Area between non-residents of the Common Monetary Area. In addition, the

proceeds from the sale of ordinary shares on the JSE on behalf of shareholders who are not residents of the Common Monetary Area are freely remittable to such shareholders. Share certificates held by non-residents will be endorsed with the words “non-resident”.

Dividends

Other than non-cash dividends and dividends of a capital nature, which require specific FSD approval, dividends declared in respect of shares held by a non-resident in a company whose shares are listed on the JSE are freely remittable.

Any cash dividends paid by us are expected to be paid in Rands. Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the deposit agreement. Subject to exceptions provided in the deposit agreement, cash dividends paid in Rands will be converted by the depositary to Dollars and paid by the depositary to holders of ADSs, net of conversion expenses of the depositary, in accordance with the deposit agreement. The depositary will charge holders of ADSs, to the extent applicable, taxes and other governmental charges and specified fees and other expenses. See Item 3. “Key Information – Dividends and Dividend Policy”.

Shareholders who are not residents of the Common Monetary Area who are in receipt of scrip dividends and who elect to dispose of the relevant shares, may remit the proceeds arising from the sale of the relevant shares.

TAXATION

The following is a summary of the material South African and US tax consequences in connection with the acquisition, ownership and disposition of Telkom's ordinary shares and ADSs. The following summary is not a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of Telkom's shares or ADSs and does not cover tax consequences that depend upon your particular tax circumstances. This discussion is only a general discussion; it is not a substitute for tax advice.

We recommend that you consult your own tax advisor about the consequences of holding Telkom's ordinary shares or ADSs, as applicable, in your particular situation. The discussion in this section is based on current law. Changes in laws may alter the tax treatment of Telkom's ordinary shares or ADSs, as applicable, possibly on a retroactive basis.

South African tax matters

Withholding tax on dividends

Currently, the Republic of South Africa does not impose withholding tax on dividends. Accordingly, we are not obliged to withhold any tax on dividends paid by us to our shareholders whether or not such shareholder is resident in the Republic of South Africa. The decision to impose a withholding tax on dividends declared by South African residents to non-resident shareholders is generally permissible under the terms of a reciprocal tax treaty entered into between the Republic of South Africa and the United States in 1997. That treaty, however, provides that any withholding tax introduced in the future shall be limited to:

- 5% of the gross amount of the dividends declared, provided that the beneficial owner of the shares on which the relevant dividends are declared is a company holding at least 10% of the voting stock of the relevant company declaring such dividend; and
- 15% of the gross amount of the dividends declared by the relevant company in all other cases.

Although no withholding tax is payable on dividends declared by a South African resident, South Africa has a secondary tax on companies, or STC, which is imposed at the rate of 10% (12.5% prior to October 1, 2007) of the net amount of the dividend. Although the STC is the liability of the South African resident company which declares the dividend, it would reduce the amount available for distribution. See "Secondary tax on companies".

Secondary tax on companies (STC)

Secondary tax on companies, or STC, is payable in the Republic of South Africa by companies resident in the Republic of South Africa at a rate of 10% based on the net amount of dividends declared by a company during any dividend cycle. The net amount of dividends declared by a company is the excess of the dividends declared by the company over the amount of certain dividends accruing to the company during the relevant dividend cycle. A dividend cycle runs from the date of accrual of a dividend to the shareholders to the next shareholder accrual date. Any excess of dividends accruing to a company in a relevant dividend cycle, excluding most foreign dividends, over the dividends paid in such cycle are carried forward by the company to the succeeding dividend cycle as an STC credit.

The imposition of STC, together with the corporate income tax discussed below, effectively imposes a dual corporate tax system in the Republic of South Africa with the liability for each of STC and normal corporate income tax being separately determined. Accordingly, a company without a normal tax liability may have a liability for STC, and vice versa, and may be liable for both normal tax and STC on profits distributed. STC creates a maximum effective tax rate on companies of 34.0% (35.45% prior to April, 2008). Capitalization shares awarded and distributed in lieu of cash dividends

do not incur STC and listed South African companies often offer capitalization shares in lieu of cash dividends. No South African tax, including withholding tax, is payable in respect of the receipt of these shares by the recipients thereof. However, STC will arise to the extent capitalized profits used to award the capitalization shares are subsequently paid to shareholders whether in connection with a liquidation or reconstruction of the company or a repayment of capital, including a share buy-back.

The Government announced that it intends to abolish secondary tax on companies in the 2009 financial year and replace it with a withholding tax at the rate of 10%, applicable to both residents who are individuals, trusts or nominee companies and non-residents, subject to any relevant double tax agreement.

Income taxes relating to shareholders

In principle, South African residents are taxed on their worldwide income regardless of the source thereof. Non-residents are, subject to certain exemptions, taxed in relation to income derived from a source within or deemed to be within the Republic of South Africa. These exemptions include normal dividends received from South African companies, such as Telkom; interest received from sources in the Republic of South Africa, including on stocks or securities issued by the government, provided the non-resident is (a) a natural person who was not physically present in South Africa for more than 183 days in the aggregate during the particular tax year or (b) at any time in that tax year did not carry on business through a permanent establishment in South Africa (subject to the provisions of any relevant double tax agreement).

Under South African tax law, a natural person is a resident if the person is ordinarily resident in the Republic of South Africa or, if not ordinarily resident during any particular year of assessment for tax purposes, the person was physically present in the Republic of South Africa for certain prescribed periods in the five years prior to and during the tax year in question. Non-natural persons, including companies and trusts, are deemed to be resident in the Republic of South Africa for tax purposes if they were incorporated or formed in the Republic of South Africa or have their place of effective management in the Republic of South Africa. However, a person, natural or non-natural, is not a resident of the Republic of South Africa if that person is deemed to be exclusively a resident of another country in terms of a double taxation agreement entered into between the Republic of South Africa and that other country.

Generally, income tax is payable on the profits derived from the disposal of shares in a South African company by residents of the Republic of South Africa if the profits derived from such disposal are of a revenue nature as opposed to a capital nature. Essentially, a profit is viewed as being of a revenue nature if it is made pursuant to the operation of a business or scheme of profit making and not incidentally or as a result of a mere realization of a share held for long-term investment purposes. In determining whether the income derived from the disposal of such shares is of a capital or revenue nature, the South African tax authorities and courts look at, among other things, the intention of the holder of the shares to determine whether the disposal gave rise to a capital or a revenue profit. Subject to certain exceptions, the proceeds on disposal of any share held for more than three years is deemed to be of a capital nature. Currently profits derived from the disposal of South African shares held as long-term investments are generally regarded to be profits of a capital nature and are not subject to South African income tax, but may be subject to capital gains tax. See "Capital gains tax" for a discussion of the imposition of capital gains tax. Generally, the distribution of profits by way of dividends paid by a South African resident company, such as Telkom, in the ordinary course, is not deductible by the company and is exempt from South African taxation for the recipient.

If a non-resident shareholder trades in South African shares, such non-resident shareholder would be subject to South African income tax if the proceeds from the disposal would be seen as being from a South African source, which would generally be the case where the trading activities take place in South Africa.

To the extent that any share is acquired at a discount to market price, or any other benefit is derived from the acquisition of the share, there is a risk that the relevant discount benefit could be regarded as an income tax taxable benefit in the hands of the relevant shareholder if that shareholder is an employee or director of Telkom and that share was acquired from Telkom, its associated institutions or a third party by arrangement with it, or if that shareholder is an employee of the Government of the Republic of South Africa and that share was acquired from the Government, its associated institutions or a third party by arrangement with it.

Should a resident of the United States be subject to South African income tax pursuant to the South African legislation, the tax treaty between South Africa and the United States may provide such US resident with tax relief. The tax treaty between South Africa and the United States provides that profits of an enterprise of a US resident may be taxed in South Africa only if such US resident carries on a business in South Africa through a permanent establishment situated in South Africa. Thus if South Africa has taxing rights to any profits generated by the disposal of shares by a US resident to the extent that such US resident carries on business through a permanent establishment in South Africa and the share dealing activities form part of such permanent establishment's business, the US resident will, in principle, be taxed on the profits of the disposal to the extent that such profits are from a source within or deemed to be within South Africa. If the profit is capital in nature and the shares do not form part of the business property of a permanent establishment of the US resident in South Africa, the treaty gives only the United States the right to tax.

Income taxes

As discussed above, income tax is levied in the Republic of South Africa only on income which is classified to be of a revenue nature. South African resident companies are subject to corporate income tax of 28% (29% prior to April 1, 2008) of their taxable income. Non-resident companies are, subject to any relevant double tax agreement, subject to tax in South Africa on their South African source income at the rate of 33% (34% prior to April 1, 2008), but they are exempt from secondary tax on companies. See "Secondary tax on companies".

Capital gains tax

Capital gains tax was introduced into the South African taxation system with effect from October 1, 2001. Capital gains tax was introduced by way of an amendment to the South African Income Tax Act, 58 of 1962, to incorporate therein a substantive new schedule known as the Eighth Schedule. The relevant capital gains tax rates are summarized in the table below.

Capital gains tax is imposed on certain capital gains arising from the disposal or deemed disposal of an asset and a prescribed portion of the capital gain, as set out in the table below, will be included in a taxpayer's taxable income. An asset is very broadly defined in the legislation and includes shares in a South African company. If, however, the profits of the disposal were subject to income tax, no capital gains tax liability would arise.

Capital gains or losses are calculated separately with respect to each asset disposed of during the tax year and then aggregated to ultimately calculate the taxpayer's total taxable capital gain or loss. Each capital gain is determined by deducting from the proceeds accruing to the taxpayer from the relevant disposal, the base cost of the asset and any portion of the proceeds already subject to income tax. The base cost includes all direct costs in respect of the acquisition, permanent improvements and disposal of the asset. The net capital gain for the tax year, in the case of natural persons and certain special trusts only, is reduced by an annual exclusion of R16,000 (R120,000 in the year of death).

The following table sets out the prescribed portion of a capital gain that would be included in a taxpayer's taxable income, the normal tax rates applicable to taxpayers and, consequently, the effective rate at which capital gains are taxed as of March 31, 2008:

<u>Type of taxpayer</u>	<u>Prescribed portion of the capital gain included in taxable income expressed as a percentage</u>	<u>Statutory income tax rate</u>	<u>Effective rate</u>
	(%)	(%)	(%)
Individuals	25	0 – 40	0 – 10
Retirement funds	n/a	n/a	n/a
Trusts			
Special	25	0 – 40	0 – 10
Other	50	40	20
Life assurers			
Individual policyholder fund	25	30	7.5
Company policyholder fund	50	29 ⁽¹⁾	14.5 ⁽²⁾
Corporate fund	50	29 ⁽¹⁾	14.5 ⁽²⁾
Untaxed policyholder fund	—	—	—
Resident companies	50	29 ⁽¹⁾	14.5 ⁽²⁾
Non-resident companies	50	34 ⁽³⁾	17 ⁽⁴⁾
Small business corporations	50	0 – 29 ⁽¹⁾	0 – 14.5 ⁽²⁾
Employment companies	50	34 ⁽³⁾	17 ⁽⁴⁾
Collective investment schemes	n/a	n/a	n/a

Notes:

- (1) From April 1, 2008 the statutory income tax rate will be 28%.
- (2) From April 1, 2008 the effective rate will be 14%.
- (3) From April 1, 2008 the statutory income tax rate will be 33%.
- (4) From April 1, 2008 the effective rate will be 16.5%.

The legislation makes provision, in certain circumstances, for a set-off of capital losses against capital gains and a carry forward of capital losses.

To the extent a non-resident makes a capital gain on the disposal of shares, such gain will be taxed in South Africa only if: (a) the shares form part of the assets of a permanent establishment through which trade is carried on in South Africa or (b) the shares held by the non-resident, alone or with any connected person, represent at least 20% of the equity of a company and 80% or more of the net value of the non-trading assets of such company, such as Telkom, comprise immovable (real) property located in South Africa. However, pursuant to the tax treaty between South Africa and the United States, South Africa only has taxing rights to the extent that the shares disposed of form part of the business property of a permanent establishment in South Africa or represents an interest in immovable (real) property in South Africa equivalent to a United States real property interest.

Stamp duty

South African stamp duty, or uncertificated securities tax in an electronic environment, is payable on the registration of transfer of shares, or a change in their beneficial ownership, in a South African company. South African stamp duty is generally payable where shares are not listed on a securities exchange in the Republic of South Africa at the rate of 0.25% of the arm's length consideration payable for the shares concerned or their market value, whichever is greater. In respect of transactions involving shares listed on a securities exchange in South Africa, uncertificated securities tax is payable at the same rates as set out above on every change in beneficial ownership thereof pursuant to the Uncertificated Securities Tax Act, 31 of 1998.

South African stamp duty or uncertificated securities tax is generally payable on the registration of the transfer or change in beneficial ownership of the shares in the records of a South African company regardless of whether the transfer is executed within or outside South Africa. There are certain exceptions to the payment of stamp duty where, for example, the instrument of transfer is executed outside South Africa and registration of transfer is effected in any branch register kept by the relevant company outside of South Africa, subject to certain provisions set forth in the South African Stamp Duties Act, 77 of 1968. Transfers of ADSs are not subject to South African stamp duty or uncertificated securities tax; however, if shares are withdrawn from the deposit facility, stamp duty or uncertificated securities tax is payable on the subsequent transfer of the shares. An acquisition of shares from the depository by an investor in exchange for ADSs representing the shares, including an acquisition upon termination of a deposit arrangement, may render an investor liable to South African stamp duty or uncertificated securities tax at the same rate as stamp duty or uncertificated securities tax on a subsequent transfer of shares, upon the registration of the investor as the holder or new beneficial owner of shares.

The stamp duty on shares and the uncertificated securities tax was abolished with effect from July 1, 2008 and was replaced with a securities transfer tax in terms of the Securities Transfer Tax Act, 25 of 2007, which is in essence a consolidation of the stamp duty and uncertified securities taxes with certain amendments.

United States tax matters

The following discussion sets forth the material US federal income tax consequences of the ownership and disposition of our ordinary shares or ADSs relevant to US holders, and in certain circumstances, non-US holders, as of the date of this annual report. This discussion is based on the US Internal Revenue Code of 1986, as amended, referred to herein as the Code, and existing final, temporary and proposed Treasury Regulations, rulings and judicial decisions, all as of the date hereof and all of which are subject to prospective or retroactive changes, which could affect the tax consequences as described below.

This discussion does not purport to address all US federal income tax consequences that may be relevant to a particular investor. This discussion applies to you only if you hold our ordinary shares or ADSs, as applicable, as a capital asset for US federal income tax purposes, generally, assets held for investment, within the meaning of Section 1221 of the Code. This discussion does not address the tax consequences that may be relevant to you if you are a member of a class of holders subject to special rules, including:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- insurance companies;
- tax-exempt organizations;
- persons that hold our ordinary shares or ADSs as part of a straddle or a hedging, integrated, constructive sale or conversion transaction for US federal income tax purposes;
- persons whose functional currency for US federal income tax purposes, as defined in Section 985 of the Code is not the US Dollar;
- persons resident or ordinarily resident in South Africa;
- persons liable for alternative minimum tax;
- persons that own, or are treated as owning, directly, indirectly or constructively, ten percent or more of the total combined voting power of our ordinary shares or ADSs;
- a US expatriate or former long-term resident of the US;

- a person who acquired our ordinary shares or ADSs as compensation;
- a regulated investment company; or
- a real estate investment trust.

Further, this discussion does not address the indirect consequences to holders of equity interests in entities, for instance, partnerships, that own our ordinary shares or ADSs. In addition, this discussion does not address any aspect of US federal gift or estate tax, or the state, local or non-US tax consequences of an investment in our ordinary shares or ADSs.

For purposes of the discussion below, you are a US holder if you are a beneficial owner of our ordinary shares or ADSs who or which is:

- a citizen or resident of the United States;
- a corporation, or entity taxable as a corporation, that was created or organized in or under the laws of the United States or any state of the United States, including the District of Columbia;
- an estate, the income of which is subject to US federal income tax regardless of its source; or
- a trust if: (a) a court within the United States is able to exercise primary supervision over its administration and one or more US persons, as defined in Section 7701(a)(30) of the Code, have the authority to control all substantial decisions of the trust or (b) the trust was in existence on August 20, 1996, and on August 19, 1996 was treated as a domestic trust and has elected to be treated as a US person.

A non-US holder is a beneficial owner of our ordinary shares or ADSs who is not a US holder.

Tax consequences to US holders

For US federal income tax purposes, if you are the beneficial owner of ADSs you will be treated as the beneficial owner of the underlying ordinary shares represented by the ADSs.

Distributions

Subject to the passive foreign investment company discussion below, any distributions, other than pro rata distributions payable only in ordinary shares to a US holder with respect to our ordinary shares or ADSs will be a dividend to such US holder to the extent those distributions are made out of our current and accumulated earnings and profits, as determined for US federal income tax purposes. Any such dividend generally will be included in your gross income as foreign source dividend income on the date the distribution is received or, in the case of a US holder of ADSs, on the date of receipt by the depositary. Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital, reducing your tax basis in the ordinary shares or ADSs. Any such distribution in excess of your tax basis in the ordinary shares or ADSs will be treated as capital gain and will be either long-term or short-term depending upon whether you have held the ordinary shares or ADSs for more than one year. Generally, the maximum tax rate on qualified dividends is 15% for individuals for tax years 2003 through 2010. We expect our dividends to be qualified dividends as long as our ordinary shares or ADSs continue to be readily tradable on the New York Stock Exchange, you have held our ordinary shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, and we are not a passive foreign investment company, or a PFIC, for US federal income tax purposes in the taxable year in which we pay a dividend and were not a PFIC in the preceding taxable year, provided certain other requirements are met. Each individual US holder is urged to consult his or her own tax advisor regarding the availability to him or her of the reduced dividend tax rate in light of his or her own particular situation.

Dividends paid by us will not be eligible for the dividends received deduction available to certain US corporate shareholders. Because we do not calculate our earnings and profits under US rules, you will not be able to demonstrate that a distribution is not out of earnings and profits.

We expect to pay distributions on the ordinary shares and ADSs in South African Rands. Dividends paid in South African Rands generally will be included in your gross income in a US Dollar amount calculated by reference to the exchange rate in effect on the day you, in the case of ordinary shares, or the depository, in the case of ADSs, receive the dividend, regardless of whether the payment is converted into US Dollars at that time. Any foreign currency gain or loss that you recognize on a subsequent conversion of Rands into US Dollars will be US source ordinary income or loss.

Dispositions

Subject to the passive foreign investment company discussion below, you generally will realize capital gain or loss upon the sale or other disposition of our ordinary shares or ADSs measured by the difference between the amount realized on the sale or other disposition and your tax basis in the ordinary shares or ADSs, which is generally your cost of the ordinary shares or ADSs reduced by any previous distributions that are not characterized as dividends. Any recognized gain or loss will be long-term capital gain or loss if the ordinary shares or ADSs have been held for more than one year on the date of the sale or other disposition. In general, any capital gain or loss recognized will be treated as US source income or loss, as the case may be, for US foreign tax credit purposes. Your ability to deduct capital losses may be subject to limitations. Currently, there is a maximum tax rate of 15% on net long-term capital gains of non-corporate taxpayers with respect to such gains recognized in tax years ending after May 5, 2003 and beginning before January 1, 2011.

If you receive Rands upon the sale or other disposition of our shares or ADSs, you will realize an amount equal to the US Dollar value of the Rands on the date of the sale or other disposition, or in the case of cash basis and electing accrual basis taxpayers, the settlement date. You will have a tax basis in the Rands received equal to the US Dollar amount of the Rands received. Any foreign currency gain or loss you recognize on a subsequent conversion of Rands into US Dollars generally will be US source ordinary income or loss.

Because the stamp duty on shares and the uncertificated securities tax was abolished with effect from July 1, 2008 and was replaced with a securities transfer tax in terms of the Securities Transfer Tax Act, 25 of 2007, the South African stamp duty should not apply in connection with a subsequent registration or transfer of Telkom's ordinary shares (see Item 10. "Additional information – Taxation – South African Tax Matters – Stamp duty") and the securities transfer tax under the Securities Transfer Tax Act, 25 of 2007, should apply. In all events, the stamp duty or securities transfer tax, as applicable, will not be a creditable tax for US foreign tax credit purposes.

Passive foreign investment company

We do not believe that we are a PFIC for US federal tax purposes and expect to continue our operations in such a manner that we will not become a PFIC. A determination of whether a non-US company is a PFIC must be made on an annual basis, and our status could change depending among other things upon changes in our activities and assets and the activities and assets of corporations in which we own, directly or indirectly, a 25 percent or more interest. If we were to become a PFIC, US holders would generally be subject to US federal income taxes at the highest ordinary income tax rate on any excess distributions received and any gain realized from the sale or other disposition of the ordinary shares or ADSs plus an interest charge on certain taxes treated as having been deferred by US holders under the PFIC rules, regardless of whether we continue to be a PFIC.

US holders should consult their own tax advisors concerning the United States federal income tax consequences of holding ordinary shares or ADSs if we are considered a PFIC in any taxable year, including the advisability and availability of making certain elections that may alleviate the tax consequences referred to above.

Tax consequences for non-US holders

You generally will not be subject to US federal income tax or withholding tax on dividends received from us with respect to our ordinary shares or ADSs unless that income is considered effectively connected with the conduct of a US trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to US federal income tax on a net income basis in respect of income from our ordinary shares or ADSs, as applicable, such dividends are attributable to a permanent establishment that you maintain in the United States.

You generally will not be subject to US federal income tax on any gain recognized upon the sale or exchange of our ordinary shares or ADSs, unless:

that gain is effectively connected with the conduct of a US trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to US federal income tax on a net income basis in respect of gain from the sale or other disposition of our ordinary shares or ADSs, as applicable, such gain is attributable to a permanent establishment maintained by you in the United States; or

you are an individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and either your gain is attributable to an office or other fixed place of business that you maintain in the United States or you have a tax home in the United States.

If you are engaged in a US trade or business, the income from our ordinary shares or ADSs, including dividends and the gain from the disposition of our ordinary shares or ADSs, that is effectively connected with the conduct of that trade or business generally will be subject to regular US federal income tax in the same manner as income of a US holder, as discussed above. In addition, if you are a corporation, your earnings and profits that are attributable to that effectively connected income, subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or any lower rate as may be specified by an applicable tax treaty.

Information reporting and backup withholding

Backup withholding and information reporting requirements may apply to payments within the United States on our ordinary shares or ADSs, including certain payments on the proceeds of a sale or redemption of our ordinary shares or ADSs, to US holders. We, our agent, a broker, the trustee or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the US holder fails to furnish the US holder's taxpayer identification number, to certify that such US holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. The backup withholding rate is currently 28%, and will be 31% for amounts paid after December 31, 2010 unless Congress enacts legislation providing otherwise. US holders required to establish their exempt status must generally provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number. Certain US holders, including, among others, corporations, are not subject to the backup withholding and information reporting requirements.

Non-US holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, our ordinary shares or ADSs, provided that such a non-US holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Non-US holders required to establish their exempt status must generally provide such certification on IRS Form W8-BEN, entitled Certificate of Foreign Status.

The amount of any back-up withholding will be allowed as a credit against a holder's US federal income tax liability and may entitle such holder to a refund, provided that certain information is furnished to the IRS.

HOLDERS AND PROSPECTIVE PURCHASERS OF OUR ORDINARY SHARES OR ADSs SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE SOUTH AFRICAN AND US FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS TO ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON SOUTH AFRICAN OR NON-US JURISDICTION, AND ESTATE, GIFT, AND INHERITANCE LAWS.

DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as they apply to foreign private issuers, and file reports and other information with the SEC. As a foreign private issuer, we are exempt from Exchange Act rules regarding the content and furnishing of proxy statements to shareholders and rules relating to short swing profit reporting and liability.

Our SEC filings are available to the public over the internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the public reference facilities of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549, United States.

You may obtain more information concerning the operation of the public reference section of the SEC by calling the SEC at 1-800-SEC-0330. In addition, the reports and other information we file with the SEC are also available for reading and copying at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, United States. We also maintain an internet site at <http://www.telkom.co.za>. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Item 11. Quantitative and qualitative disclosures about market risk

Financial instruments and financial risk management

Exposure to continuously changing market conditions has made management of financial risk critical for Telkom. Treasury policies, risk limits and control procedures are continuously monitored by Telkom's board of directors through its audit and risk management committee.

We hold or issue financial instruments to finance our operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, certain financial instruments, for example trade receivables and trade payables, arise directly from our operations.

We finance our operations primarily with a mixture of issued share capital, retained earnings and long-term and short-term loans. We use derivative financial instruments to manage our exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts. We do not speculate in derivative instruments.

Market sensitive instruments – other than for trading purposes

Interest rate risk management

Interest rate risk arises from the repricing of our forward cover and floating rate debt as well as incremental funding or new borrowings and the refinancing of existing borrowings.

Our policy is to manage interest cost through the utilization of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of existing borrowings and anticipated peak additional borrowings, we make use of interest rate derivatives as approved pursuant to our group policy limits. Fixed rate debt represented 51.9%, 90.4% and 92.0% of our total consolidated debt as of March 31, 2008, 2007 and 2006, respectively. There were no material changes in the policies and processes for managing and measuring interest rate risk in the 2008 financial year.

The following table shows our fixed and variable rate debt for the periods indicated.

	At March 31, 2008							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair value
	(in ZAR millions, except percentages)							
Long term debt								
Telkom								
Fixed rate (ZAR								
denominated)								
Long term debt, including								
current portion	(3,483)	(900)	(1,780)	–	–	(2,500)	(8,663)	(7,235)
Average interest rate ⁽¹⁾⁽²⁾ .	11.54%	12.38%	14.98%			15.00%	13.33%	
Finance leases	(26)	(11)	–	(17)	(36)	(766)	(856)	(856)
Variable rate (ZAR								
denominated)								
Variable rate	(2,600)	(3,000)	–	–	–	–	(5,600)	(5,645)
Average interest rate ⁽²⁾ .	11.58%	12.22%	–	–	–	–	11.92%	–
Variable rate (EURO								
denominated)								
Variable rate	–	–	(21)	(13)	(9)	(98)	(141)	(141)
Average interest rate ⁽²⁾⁽³⁾ .	–	–	0.10%	0.10%	0.10%	0.14%	0.13%	
Vodacom ⁽⁴⁾								
Fixed (ZAR								
denominated)								
Finance leases and other								
short term debt	(101)	(71)	(103)	(42)	(39)	–	(356)	(363)
Variable rate (ZAR								
denominated)								
Long term debt, including								
current portion	–	–	(500)	–	–	(3)	(503)	(494)
Fixed rate (USD								
denominated)								
Long term debt, including								
current portion	(4)	–	–	–	–	–	(4)	(4)
Variable rate (USD								
denominated)								
Long term debt, including								
current portion	(150)	(731)	–	–	–	(71)	(952)	(976)
Other								
Fixed rate (ZAR								
denominated)								
Finance leases and other								
debt (ZAR)	(1)	(6)	(2)	(2)	–	–	(11)	(11)
Fixed rate (Naira								
denominated)								
Long term debt, including								
current portion (ZAR) . .	–	(70)	(17)	–	–	–	(87)	(87)
Fixed rate (Euro								
denominated)								
Long term debt, including								
current portion (ZAR) . .	(1)	–	–	–	–	–	(1)	(1)
Variable rate (USD								
denominated)								
Long term debt, including								
current portion (ZAR) . .	(47)	(6)	(321)	(1)	–	(82)	(457)	(457)

Notes:

- (1) Weighted average yield to maturity.
(2) Weighted average interest rate.
(3) Variable rate equals the current reset rate applicable on reporting date.
(4) Represents Telkom's 50% share of Vodacom's interest bearing indebtedness.

The following table shows our interest rate swaps for the periods indicated.

	At March 31, 2008							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair value
	(in ZAR millions, except percentages)							
Telkom								
ZAR Pay fixed, receive floating	—	—	—	—	—	—	—	—
Average pay rate ⁽¹⁾⁽³⁾	—	—	—	—	—	—	—	—
Average receive rate ⁽¹⁾⁽³⁾	—	—	—	—	—	—	—	—
Vodacom ⁽²⁾								
ZAR Receive fixed, pay floating	27	—	—	—	58	—	85	9
Average pay rate ⁽¹⁾⁽³⁾	13.62%	—	—	—	13.30%	—	13.40%	
Average receive rate ⁽¹⁾⁽³⁾	14.90%	—	—	—	15.04%	—	15.00%	

Notes:

- (1) Weighted average interest rate.
(2) Represents Telkom's 50% share of Vodacom's indebtedness.
(3) Variable rate calculated as of March 31, 2008.

Foreign currency exchange rate risk

In respect of South African operations, we manage our foreign exchange rate risk by hedging all identifiable exposures via various financial instruments suitable to our risk exposure.

Forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on our operations and our liabilities. We also enter into forward foreign exchange contracts to hedge interest expense and purchase and sale commitments denominated in foreign currencies, principally US Dollars and Euros. The purpose of our foreign currency hedging activities is to protect us from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

We make use of foreign debt funding when the opportunity exists to fund at a lower than local cost of funding, or for strategic reasons.

There were no material changes in the exposure to foreign currency exchange rate risk and its objectives, policies and processes for managing and measuring this risk in the 2008 financial year.

The following table sets forth our liabilities and related derivative instruments subject to foreign exchange risk for the periods indicated.

	At March 31, 2008						Fair value
	2009	2010	2011	2012	2013	Thereafter Total	
	(in ZAR millions, except percentages)						
Telkom							
Long term debt							
Variable rate (EURO denominated) ⁽²⁾	—	—	21	13	9	98	141
Average interest rate ⁽¹⁾	—	—	0.10%	0.10%	0.10%	0.14%	0.13%
Vodacom							
Fixed rate (USD denominated) ⁽³⁾	4	—	—	—	—	—	4
Variable rate (USD denominated) ⁽³⁾	150	731	—	—	—	71	976
Other							
Variable rate (USD denominated) ⁽³⁾	47	6	321	1	—	82	457
Fixed rate (Euro denominated) ⁽²⁾	1	—	—	—	—	—	1
Fixed rate (Naira denominated) ⁽⁴⁾	—	70	17	—	—	—	87

Notes:

- (1) Weighted average interest rate.
- (2) EURO converted at the spot rate quoted on Reuters of R12.854 per EURO on March 31, 2008.
- (3) USD converted at the spot rate quoted on Reuters of R8.132 per USD on March 31, 2008.
- (4) NAIRA converted at the spot rate of R0.07 per NAIRA on March 31, 2008.

The following tables set forth our foreign currency forward exchange contracts for the periods indicated.

Forward contracts to buy foreign currencies and sell ZAR

	At March 31, 2008							
	2009	2010	2011	2012	2013	Thereafter	Total	Fair value
	(in ZAR millions, except exchange rates)							
Telkom								
<i>US Dollars</i>								
Notional amount (millions).	915						915	107
Average contractual exchange rate	7.41						7.41	
<i>EURO</i>								
Notional amount (millions).	1,924						1,924	319
Average contractual exchange rate	11.15						11.15	
<i>Pound Sterling</i>								
Notional amount (millions).	137						137	11
Average contractual exchange rate	15.11						15.11	
<i>Swedish Krona</i>								
Notional amount (millions).	28						28	6
Average contractual exchange rate	1.13						1.13	
<i>Japanese Yen</i>								
Notional amount (millions).	1						1	0.01
Average contractual exchange rate	0.09						0.09	
Vodacom								
<i>US Dollars</i>								
Notional amount (millions).	127						127	1
Average contractual exchange rate	8.09						8.09	
<i>EURO</i>								
Notional amount (millions).	853	50					903	125
Average contractual exchange rate	11.39	13.66					11.50	
<i>Pound Sterling</i>								
Notional amount (millions).	144						144	19
Average contractual exchange rate	14.50						14.50	
<i>Swiss Franc</i>								
Notional amount (millions).	0.70						0.70	–
Average contractual exchange rate	8.10						8.10	
<i>Australian Dollars</i>								
Notional amount (millions).	2						2	–
Average contractual exchange rate	7.41						7.41	

Forward contracts to sell foreign currencies and buy ZAR

	At March 31, 2008						
	2009	2010	2011	2012	2013	Thereafter Total	Fair value
	(in ZAR millions, except percentages)						
Telkom							
<i>US Dollars</i>							
Notional amount (millions). .	593					593	(67)
Average contractual exchange rate	7.60					7.60	
<i>EURO</i>							
Notional amount (millions). .	803					803	(99)
Average contractual exchange rate	11.70					11.70	
<i>Pound Sterling</i>							
Notional amount (millions). .	84					84	(1)
Average contractual exchange rate	16.25					16.25	
<i>Swedish Krona</i>							
Notional amount (millions). .	21					21	(1)
Average contractual exchange rate	1.37					1.37	
<i>Japanese Yen</i>							
Notional amount (millions). .	0.2					0.2	(0.03)
Average contractual exchange rate	0.07					0.07	
Vodacom							
<i>US Dollars</i>							
Notional amount (millions). .	3					3	–
Average contractual exchange rate	8.07					8.07	
<i>EURO</i>							
Notional amount (millions). .	45					45	(5)
Average contractual exchange rate	11.54					11.54	
<i>Pound Sterling</i>							
Notional amount (millions). .	5					5	(0.1)
Average contractual exchange rate	15.99					15.99	
<i>Australian Dollar</i>							
Notional amount (millions). .	1					1	–
Average contractual exchange rate	7.51					7.51	

Other market risks

Credit risk management

Credit risk arises from derivative contracts entered into with international financial institutions with a rating of A1 or better. We do not believe we are exposed to significant concentrations of credit risk. Credit limits are set on an individual basis. The maximum exposure to the Telkom Group from counterparties was a net favorable position of R438 million as of March 31, 2008 compared to R144 million as of March 31, 2007 and R158 million as of March 31, 2006. No collateral is generally required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. We seek to limit our exposure to any counterparty and these exposures are monitored daily. We currently expect that all counterparties will meet their obligations.

With respect to credit risk arising from other financial assets of the group, which comprises held-to-maturity investments, financial assets held at fair value through profit or loss, loans and receivables and available-for-sale assets, our exposure to credit risk arises from a potential default by a counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Our exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management seeks to reduce the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies.

Trade receivables comprise a large and widespread customer base, covering residential, business consisting of government, wholesale and global and corporate customer profiles.

Credit checks are performed on all customers, other than prepaid customers, on application for new services and on an ongoing basis where appropriate.

We establish an allowance for impairment that represents our estimate of incurred losses in respect of trade and other receivables and investments. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows.

We have provided a financial guarantee to Africa Online for bank loans. As of March 31, 2008, there was R23 million outstanding under this loan.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring this risk during the 2008 financial year.

Liquidity risk management

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We are exposed to liquidity risk as a result of uncertain trade receivable related cash flows and capital commitments.

Liquidity risk is managed by our corporate finance division in accordance with policies and guidelines formulated by Telkom's executive committee. Pursuant to our borrowing requirements, we seek to ensure that sufficient facilities exist to meet our immediate obligations. Telkom believes it maintains a reasonable balance between the period over which assets generate funds and the period over which the respective assets are funded in order to manage long-term liquidity risk. Short-term liquidity gaps may be funded through repurchase agreements and commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring this risk during the 2008 financial year.

We had available credit facilities not utilized of R7.6 billion as of March 31, 2008.

Fair value of financial instruments

Fair value of all financial instruments noted in our balance sheet approximate carrying value.

The estimated net fair values as of March 31, 2008 have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that we could realize in the normal course of business.

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

For detailed information on our financial instruments and risk management, refer to note 12 of the Telkom Group's consolidated annual financial statements included herein.

Item 12. Description of securities other than equity securities

Not applicable.

PART II

Item 13. Defaults, dividend arrearages and delinquencies

None.

Item 14. Material modifications to the rights of security holders and use of proceeds

None.

Item 15. Controls and procedures

Disclosure controls and procedures

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness, as of March 31, 2008, the end of the period covered by this annual report, of our disclosure controls and procedures within the meaning of Rule 13a-15(e) of the U.S. Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Based on this evaluation, our chief executive officer and our chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective for recording, processing, summarizing and reporting the material information we are required to disclose in the reports we file or submit under the Exchange Act, within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. Telkom's management, including its chief executive officer and chief financial officer, recognize that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving management's control objective. Telkom's management, including its chief executive officer and chief financial officer, believe that, as of March 31, 2008, Telkom's disclosure controls and procedures were effective to provide reasonable assurance of achieving management's control objectives.

Management's report on internal control over financial reporting

Telkom's management is responsible for establishing and maintaining adequate "internal control over financial reporting" as such term is defined under Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with International Financial Reporting Standards, or IFRS.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentations. Also, the effectiveness of internal control over financial reporting may deteriorate in future periods due to either changes in conditions or declining levels of compliance with policies or procedures.

In accordance with IFRS, the audited consolidated financial statements of the Telkom group include the proportionately-consolidated results of our Vodacom Group (Proprietary) Limited joint venture. As provided by the SEC in "Management's Report on Internal Control over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports Frequently Asked Questions", revised September 24, 2007 (SEC Section 404 FAQs) and supported by the International Practices Task Force (IPTF) of the SEC Regulations Committee, management's assessment does not include an assessment of the internal control over financial reporting of this joint venture as

management does not have the ability to dictate or modify the controls of this joint venture and does not have the ability, in practice, to assess these controls. Accordingly, management's conclusion regarding the effectiveness of its internal control over financial reporting does not extend to the internal controls of this entity. The total assets, net assets, total revenues and net income of this joint venture represent approximately 24%, 18%, 43% and 49%, respectively, of the Telkom Group's related consolidated financial statements as of and for the year ended March 31, 2008.

The audited consolidated financial statements of the Telkom Group for the 2008 financial year include the results of the business acquisition of Multi-Links Telecommunications Ltd acquired effective May 1, 2007. As permitted by the SEC's June 23, 2004 implementation guidance to issuers relating to the SEC's final rules on internal control over financial reporting, Management's assessment does not include an assessment of the internal control over financial reporting of this acquisition. The total assets, net assets, total revenues and net income of the acquisition represent approximately 3%, 1%, 2% and 1%, respectively, of the Telkom Group's related consolidated financial statement totals and of and for the year ended March 31, 2008.

Management has assessed the effectiveness of internal control over financial reporting as of March 31, 2008. In making its assessment, management has based its assessment on the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control – Integrated Framework*. Management concluded, and hereby reports that based on its assessment, Telkom's internal control over financial reporting was effective as of March 31, 2008. The independent registered public accounting firm Ernst & Young has issued an audit report on the effectiveness of the Telkom Group's internal control over financial reporting as of March 31, 2008. This report is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Telkom SA Limited

We have audited Telkom SA Limited's ("Telkom" or the "Company") internal control over financial reporting as of March, 31 2008, based on criteria established in Internal Control– Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Telkom's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's report on internal control over financial reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally

accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying "Management's report on internal control over financial reporting" appearing under item 15 of the Company's Form 20-F, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Vodacom Group (Proprietary) Limited, an entity that is under joint control of the Company, which is included in the March 31, 2008 consolidated financial statements of Telkom SA Limited and constituted R17,088 million and R5,903 million of total and net assets, respectively, as of March 31, 2008 and R24,089 million and R3,979 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of March 31, 2008 also did not include an evaluation of the internal control over financial reporting of Vodacom Group (Proprietary) Limited.

As also indicated in the accompanying "Management's report on internal control over financial reporting" appearing under item 15 of the Company Form 20-F, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Multi-Links Telecommunications Ltd, an entity that was acquired effective May 1, 2007, which is included in the March 31, 2008 consolidated financial statements of Telkom SA Limited and constituted R2,206 million and R313 million of total and net assets, respectively, as of March 31, 2008 and R845 million and R49 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of March 31, 2008 also did not include an evaluation of the internal control over financial reporting of Multi-Links Telecommunications Ltd.

In our opinion, Telkom maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as at March 31, 2008, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2008 of Telkom and our report dated July 11, 2008 expressed an unqualified opinion thereon.

ERNST & YOUNG Inc.
Pretoria
Republic of South Africa

July 11, 2008

Changes in Internal Control Over Financial Reporting

There have been no changes in Telkom's internal controls over financial reporting during the fiscal year ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, Telkom's internal control over financial reporting.

Item 16A. Audit committee financial expert

Our board of directors has determined that the chairman of our audit committee, Mr. Sibusiso Luthuli, is an audit committee financial expert within the meaning of Item 16A. (b) and (c) of the requirements of Form 20-F of the SEC. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation, any duties, obligations or liability that are greater than the duties, obligations or liabilities imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. Mr. Luthuli is a qualified Chartered Accountant (SA).

Item 16B. Code of ethics

Telkom has adopted a business code of ethics and a disclosure of information policy that apply to all of our employees, including our chief executive officer, chief of finance and principal accounting officer or controller. Telkom's business code of ethics, taken together with its disclosure of information policy, are designed to comply with the requirements of Item 16B of Form 20-F. Telkom's business code of ethics seeks to instill in its employees the spirit of fairness, respect and ethical standards in dealing with Telkom's stakeholders. In business dealings on behalf of Telkom, employees are expected to avoid activities that might give rise to conflicts of interest. Employees are expected to act in the exclusive interest of Telkom. Procedures have been put in place to deal with conflicts of interest where these arise in the course of employees' day-to-day activities.

Telkom is committed to promoting the highest standards of behavior and compliance with laws and regulations. Therefore its business code of ethics is reviewed regularly to ensure that it keeps up with developments both inside and outside Telkom.

We have incorporated by reference our business code of ethics and disclosure policy as exhibits to this annual report.

Item 16C. Principal accountant fees and services

The following table sets forth the aggregate audit fees, audit related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than audit fees, audit related fees and tax fees for each of the 2007 and 2008 financial years:

	<u>Audit fees</u>	<u>Audit related fees</u>	<u>Tax fees</u> (ZAR millions)	<u>All other fees ⁽¹⁾</u>	<u>Total</u>
2007	48	—	—	1	49
2008	51	—	—	—	51

Note:

(1) All other fees mainly include engagements for factual findings and the issuance of related certifications.

Audit committee pre-approval policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee of our board of directors, which concluded that the provision of such services by the independent accountants was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for categorical pre-approval of permissible non-audit services and requires the specific pre-approval by the audit committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter, that are individually estimated to result in an amount of fees less than 10% of the independent accountant's total audit engagement fee for individual services; provided that all such fees must be less than 50% of the total audit fees for Telkom's annual audit engagement. In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested and the amount, but subject to the restrictions above.

Requests or applications for services that require specific separate approval by the audit committee are required to be submitted to the audit committee by both management and the independent accountants, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants.

The audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent accountants.

Item 16D. Exemptions from the listing standards for audit committees

Rule 10A-3(b)(1)(i) of the Exchange Act requires that each member of the audit committee of a listed issuer must be a member of the board of directors of the listed issuer, and must otherwise be independent. Rule 10A-3(b)(1)(ii) of the Exchange Act provides that in order to be considered to be independent, a member of an audit committee of a listed issuer may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

- accept directly or indirectly any consulting, advisory or other compensatory fee from the issuer or any subsidiary thereof; or
- be an affiliated person of the issuer or any subsidiary thereof.

An affiliated person of an issuer is a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the issuer.

One member of Telkom's Audit and Risk Management Committee (the "ARMC"), Ms. RJ Hultley, is a representative of the Government of the Republic of South Africa. The Government of the Republic of South Africa owned 39.8% of Telkom's issued and 41.5% of Telkom's outstanding ordinary shares and had additional approval rights as the holder of Telkom's class A ordinary share, as of June 30, 2008.

Rule 10A-3(b)(1)(iv)(E) of the Exchange Act provides an exemption from the prohibition on being an affiliated person of the issuer for an audit committee member of a foreign private issuer, who is a representative or designee of a foreign government or foreign governmental entity that is an affiliate of the foreign private issuer if the member is not an executive officer of the foreign private issuer.

Ms Huntley is not an executive officer of Telkom and is exempt from the prohibition on being affiliated persons of the issuer contained in Rule 10A-3(b)(1)(ii)(B) under the Exchange Act pursuant to Rule 10A-3(b)(1)(iv)(E) thereunder as representatives of the Government of the Republic of South Africa, a foreign government. Telkom does not believe that its reliance on this exemption would materially adversely affect the ability of its ARMC to act independently and satisfy the other requirements of Rule 10A-3 of the Exchange Act.

As indicated above, Telkom's audit and risk management committee is to consist of not less than three non-executive directors. As a result of the resignations of MJ Lamberti on June 3, 2008 and AG Rhoda on July 3, 2008 from the Telkom board of directors and all committees thereof, Telkom's audit and risk management committee currently consists of two non-executive directors, one of whom is a representative of the Government of South Africa. The board of directors is currently assessing the composition and membership of all the committees of its board of directors, including the audit and risk management committee, and intends to address any instances of non-compliance with their charters by the end of the 2008 calendar year. Telkom's current articles of association requires shareholders to approve the appointment of any members of Telkom's board of directors, other than the directors nominated by the class A and class B shareholders, and Telkom's class A and class B shareholding rights granted in its current shareholders agreement that will expire in March 2011 restricts the board's ability to appoint independent members. Telkom's board of directors expects to request a special general meeting in which it intends to propose an amendment to its current articles of association to permit the board of directors to appoint independent directors when a casual vacancy occurs, whom can then be retired and made available for re-election at the first annual general meeting following their appointment.

In addition, AG Rhoda, who served on the Telkom audit and risk management committee from March 5, 2008 to July 3, 2008 was a representative of the Public Investment Corporation, an investment management company wholly owned by the South African Government. Because the Public Investment Corporation directly beneficially owned 6.6% of Telkom's issued and 6.8% of Telkom's outstanding shares and Black Ginger, a wholly owned subsidiary of the Public Investment Corporation owned 9.0% of Telkom's issued and 9.3% of Telkom's outstanding ordinary shares and the class B ordinary share, AG Rhoda's appointment to the Telkom audit and risk management committee may have violated the New York Stock Exchange rules and Rule 10A-3(b)(1) of the Exchange Act that require that each member of the audit committee of a listed issuer to be independent. Any such violation was corrected by AG Rhoda's resignation on July 3, 2008.

Item 16E. Purchases of equity securities by the issuer and affiliated purchasers

Ordinary shares

In 2004 Telkom embarked on a share repurchase program to acquire shares to be used for the Telkom conditional share plan, and to facilitate share repurchase activities for purposes other than for the Telkom conditional share plan. The following table sets forth information with respect to Telkom's share repurchases in the 2008 financial year.

	(a) Total number of shares purchased	(b) Average price paid per share ZAR	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs ⁽¹⁾
For the year ended March 31, 2008				
January 22 to January 31, 2008	2,284,900	139.29	2,284,900	61,378,924
February 1 to February 29, 2008	8,236,444	135.35	8,236,444	53,142,480
March 3 to March 6, 2008	1,550,000	138.25	1,550,000	51,592,480

Note:

- (1) The shareholders of Telkom provided general approval for the share repurchase program at the Annual General Meeting held on October 20, 2006. This approval was valid until the next Annual General Meeting or for 15 months from date of the resolution, whichever period is shorter. The shareholders of Telkom again provided general approval for the share repurchase program at the Annual General Meeting held on October 26, 2007. This approval is valid until the next Annual General Meeting or for 15 months from date of the resolution, whichever period is shorter. The repurchases are subject to the provisions of the Companies Act, 61 of 1973, as amended, and the Listing Requirements of the JSE. In terms of the South African Companies Act, 61 of 1973, as amended, a subsidiary company may not acquire more than 10% of the shares in its holding company and if the holding company acquires its own shares directly, such shares must be cancelled. Telkom plans on continuing its share buy back strategy based on certain criteria.

PART III

Item 17. Consolidated financial statements

The registrant has responded to Item 18 in lieu of responding to this item.

Item 18. Consolidated financial statements

See Index to consolidated annual financial statements for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

Documents filed as exhibits to this annual report:

Exhibits	Description
1.1	Memorandum and Articles of Association of Telkom S.A. Limited ("Telkom") ⁽²⁾
1.2	Special Resolution passed on January 16, 2003, to change the Memorandum and Articles of Association of Telkom ⁽¹⁾
1.3	Special Resolution passed on October 20, 2006, to change the Memorandum and Articles of Association of Telkom ⁽¹⁾
1.4	Special Resolution passed on October 26, 2007, to change the Memorandum and Articles of Association of Telkom ⁽¹⁾
2.1	Form of Ordinary Share Certificate (Incorporated by reference to Exhibit 4.1 to the Form F-1) ⁽²⁾
2.2	Deposit Agreement, dated as of March 3, 2003, among Telkom, the Bank of New York, as Depositary, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (Incorporated by reference to Exhibit 4.2 to the F-1) ⁽²⁾
4.1	Agreement, dated July 31, 2000, between Telkom and Total Facilities Management Company (Pty) Limited (Incorporated by reference to Exhibit 10.3 to the F-1) ⁽²⁾
4.2	Exclusive Facilities Management Services Agreement, dated March 31, 2001, between Telkom and systems Applications Project (Africa) (Pty) Limited (Incorporated by reference to Exhibit 10.4 to the F-1) ⁽²⁾
4.3	Multiparty Implementation Agreement, dated September 30, 1993, among Telkom, Vodacom Group (Pty) Limited, Mobile Telephone Network (Pty) Limited, the Postmaster General and the Government of the Republic of South Africa (Incorporated by reference to Exhibit 10.5 to the F-1) ⁽²⁾
4.4	Interconnection Agreement, dated February 16, 1994, among Telkom and Vodacom Group (Pty) Limited, as amended by agreements among Telkom, Vodacom Group (Pty) Limited and MTN on August 22, 1996, January 12, 1998, July 21, 1998 and September 4, 2001 (Incorporated by reference to Exhibit 10.6 to the F-1) ⁽²⁾
4.5	Interconnection Agreement, dated February 16, 1994, among Telkom and MTN, as amended by agreements among Telkom, Vodacom Group (Pty) Limited and MTN on August 22, 1996, January 12, 1998, July 21, 1998, and September 14, 2001 (Incorporated by reference to Exhibit 10.7 to the F-1) ⁽²⁾
4.6	Interconnection Agreement, dated August 31, 2001, between Telkom SA Limited and Cell C, as amended by agreement among Telkom, Vodacom Group (Pty) Limited and Cell C, dated September 18, 2001 (Incorporated by reference to Exhibit 10.8 to the F-1) ⁽²⁾
4.7	Joint Venture Agreement, dated March 31, 1995, between Telkom, Vodafone Group plc, Rembrandt Group Limited, Vodacom Group, Vodacom, Vodac and Vodafone Holdings (SA) (Pty) Limited (Incorporated by reference to Exhibit 10.9 to the F-1) ⁽²⁾

- 4.8 Registration Rights Agreement, dated January 16, 2003, among the Minister of Communications of the Government of the Republic of South Africa, Thintana Communications LLC and Telkom SA Limited (Incorporated by reference to Exhibit 10.11 to the F-1)⁽²⁾
- 4.9 Telkom Conditional Share Plan (Incorporated by reference to Exhibit 4.11 to Telkom's Annual Report on Form 20-F for the year ended March 31, 2004 (the "20-F"))⁽³⁾
- 4.10 Service Agreement between Telkom SA Limited and Papi Molotsane (Incorporated by reference to Exhibit 4.10 of Telkom's Annual Report on Form 20-F for the year ended March 31, 2006)⁽²⁾
- 4.11 Service Agreement between Telkom SA Limited and Reuben September⁽¹⁾
- 4.12 Interconnection Agreement, dated February 6, 2007, between Telkom and Neotel (Pty) Limited on January 25, 2007 and February 6, 2007.⁽¹⁾
- 8.1 Subsidiaries of Telkom⁽²⁾
- 11.1 Telkom SA Limited Business Code of Ethics (Incorporated by reference to Exhibit 11.1 to the 20-F)⁽²⁾
- 11.2 Telkom SA Limited Disclosure of Information Policy (Incorporated by reference to Exhibit 11.2 to the 20-F)⁽²⁾
- 12.1 Certification of chief executive officer pursuant to 17 CFR 240.13a 14(a), promulgated under Section 302 of the Sarbanes Oxley Act of 2002⁽¹⁾
- 12.2 Certification of chief financial officer pursuant to 17 CFR 240.13a 14(a), promulgated under Section 302 of the Sarbanes Oxley Act of 2002⁽¹⁾
- 13.1 Certification of chief executive officer and chief financial officer furnished pursuant to Rule 13a 14(b) (17 CFR 240.13a 14(b)) or Rule 15d 14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C.1350), promulgated under Section 906 of the Sarbanes Oxley Act of 2002⁽¹⁾

Notes:

(1) Filed herewith.

(2) Incorporated by reference.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TELKOM SA LIMITED

By: /s/ Reuben Joseph September

Name: Reuben Joseph September

Title: Chief Executive Officer

Dated: July 18, 2008



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELKOM SA LIMITED

We have audited the accompanying consolidated balance sheets of Telkom SA Limited ('Telkom') and its subsidiaries (together 'the Group') as of March 31, 2008, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended set out on pages F3 to F98. These financial statements are the responsibility of the Group's directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of Vodacom Group (Proprietary) Limited, a 50% joint venture proportionally consolidated, which statements reflect total assets constituting 24%, 24% and 22% at March 31, 2008, 2007 and 2006, respectively, and total revenues constituting 43%, 40% and 36% for the years ended March 31, 2008, 2007 and 2006, respectively of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Vodacom Group (Proprietary) Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits, and the report of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telkom SA Limited and its subsidiaries at March 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards.

As described in Note 2 to the consolidated annual financial statements, in 2008 the Group adopted new and amended accounting standards, IAS 1 Presentation of Financial Statements (Revised) and IFRS 7 Financial Instruments: Disclosures.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Telkom SA Limited's internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated July 11, 2008 expressed an unqualified opinion thereon.

ERNST & YOUNG Inc.
Pretoria
Republic of South Africa
July 11, 2008

Consolidated income statement

for the three years ended March 31, 2008

	Notes	2006 Rm	2007 Rm	2008 Rm
Total revenue	3.1	48,260	52,157	56,865
Operating revenue	3.2	47,625	51,619	56,285
Other income	4	480	384	534
Operating expenses		33,428	37,533	42,337
Employee expenses	5.1	7,489	8,454	9,220
Payments to other operators	5.2	6,826	7,590	9,169
Selling, general and administrative expenses	5.3	10,273	12,902	14,409
Service fees	5.4	2,114	2,291	2,571
Operating leases	5.5	850	981	838
Depreciation, amortisation, impairment and write-offs	5.6	5,876	5,315	6,130
Operating profit		14,677	14,470	14,482
Investment income	6	397	235	197
Finance charges and fair value movements	7	1,223	1,125	1,803
Interest		1,346	1,327	1,885
Foreign exchange and fair value movement		(123)	(202)	(82)
Profit before taxation		13,851	13,580	12,876
Taxation	8	4,523	4,731	4,704
Profit for the year		9,328	8,849	8,172
Attributable to:				
Equity holders of Telkom		9,189	8,646	7,975
Minority interest		139	203	197
		9,328	8,849	8,172
Basic earnings per share (cents)	9	1,746.1	1,681.0	1,565.0
Diluted earnings per share (cents)	9	1,736.6	1,676.3	1,546.9
Dividend per share (cents)	9	900.0	900.0	1,100.0

Consolidated balance sheet

at March 31, 2008

	Notes	2006 Rm	2007 Rm	2008 Rm
Assets				
Non-current assets		44,813	48,770	57,763
Property, plant and equipment	10	37,274	41,254	46,815
Intangible assets	11	3,910	5,111	8,468
Investments	13	2,894	1,384	1,448
Deferred expenses	14	254	270	221
Finance lease receivables	15	—	158	206
Deferred taxation	16	481	593	605
Current assets		12,731	10,376	12,609
Short-term investments	13	69	77	51
Inventories	17	814	1,093	1,287
Income tax receivable	33	—	520	9
Current portion of deferred expenses	14	226	287	362
Current portion of finance lease receivables	15	—	88	166
Trade and other receivables	18	6,399	7,303	8,986
Other financial assets	19	275	259	614
Cash and cash equivalents	20	4,948	749	1,134
Total assets		57,544	59,146	70,372
Equity and liabilities				
Equity attributable to equity holders of Telkom		29,165	31,724	32,815
Share capital and premium	21	6,791	5,329	5,208
Treasury shares	22	(1,809)	(1,774)	(1,638)
Share-based compensation reserve	23	151	257	643
Non-distributable reserves	24	1,128	1,413	1,292
Retained earnings	25	22,904	26,499	27,310
Minority interest	26	301	284	522
Total equity		29,466	32,008	33,337
Non-current liabilities		12,391	8,554	15,104
Interest-bearing debt	27	7,655	4,338	9,403
Other financial liabilities	19	—	36	919
Provisions	28	2,677	1,443	1,675
Deferred revenue	14	991	1,021	1,128
Deferred taxation	16	1,068	1,716	1,979
Current liabilities		15,687	18,584	21,931
Trade and other payables	30	6,103	7,237	8,771
Shareholders for dividend	34	4	15	20
Current portion of interest-bearing debt	27	3,468	6,026	6,330
Current portion of provisions	28	1,660	2,095	2,181
Current portion of deferred revenue	14	1,975	1,983	2,593
Income tax payable	33	1,549	594	323
Other financial liabilities	19	235	193	371
Credit facilities utilised	20	693	441	1,342
Total liabilities		28,078	27,138	37,035
Total equity and liabilities		57,544	59,146	70,372

Consolidated statement of changes in equity

for the three years ended March 31, 2008

	Attributable to equity holders of Telkom								
	Share capital	Share premium	Treasury shares	Share-based compensation reserve	Non-distributable reserves	Retained earnings	Total	Minority interest	Total equity
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Balance at April 1, 2005	5,570	2,723	(1,812)	68	360	19,232	26,141	220	26,361
Total income and expense for the year					52	9,189	9,241	132	9,373
Profit for the year						9,189	9,189	139	9,328
Foreign currency translation reserve (net of tax of RNil) (refer to note 24)					52		52	(7)	45
Dividend declared (refer to note 34)						(4,801)	(4,801)	(78)	(4,879)
Transfer to non-distributable reserves (refer to note 24)					716	(716)	–		–
Shares vested and re-issued (refer to note 23)			3	(3)			–		–
Increase in share-based compensation reserve (refer to note 23)				86			86		86
Acquisition of subsidiaries and minorities (refer to note 35)							–	27	27
Shares bought back and cancelled (refer to note 21)	(121)	(1,381)					(1,502)		(1,502)
Balance at March 31, 2006	5,449	1,342	(1,809)	151	1,128	22,904	29,165	301	29,466
Total income and expense for the year					46	8,646	8,692	217	8,909
Profit for the year						8,646	8,646	203	8,849
Foreign currency translation reserve (net of tax of R4 million) (refer to note 24)					46		46	14	60
Dividend declared (refer to note 34)						(4,678)	(4,678)	(166)	(4,844)
Transfer to non-distributable reserves (refer to note 24)					239	(239)	–		–
Increase in share-based compensation reserve (refer to note 23)				141			141		141
Shares vested and re-issued (refer to note 23)			35	(35)			–		–
Acquisition of subsidiaries and minorities (refer to note 35)							–	(68)	(68)
Shares bought back and cancelled (refer to note 21)	(120)	(1,342)				(134)	(1,596)		(1,596)
Balance at March 31, 2007	5,329	–	(1,774)	257	1,413	26,499	31,724	284	32,008
Total income and expense for the year					529	7,975	8,504	226	8,730
Profit for the year						7,975	7,975	197	8,172
Revaluation of available-for-sale investment (net of tax of R1 million)					8		8		8
Foreign currency translation reserve (net of tax of R6 million) (refer to note 24)					521		521	29	550
Dividend declared (refer to note 34)						(5,627)	(5,627)	(65)	(5,692)
Transfer to non-distributable reserves (refer to note 24)					11	(11)	–		–
Increase in share-based compensation reserve (refer to note 23)				522			522		522
Shares vested and re-issued (refer to note 23)			136	(136)			–		–
Acquisition of subsidiaries and minorities (refer to note 35)							–	77	77
Shares bought back and cancelled (refer to note 21)	(121)					(1,526)	(1,647)		(1,647)
Minority put option (refer to notes 19 and 24)					(661)		(661)		(661)
Balance at March 31, 2008	5,208	–	(1,638)	643	1,292	27,310	32,815	522	33,337

Consolidated cash flow statement

for the three years ended March 31, 2008

	Notes	2006 Rm	2007 Rm	2008 Rm
Cash flows from operating activities		9,506	9,356	10,603
Cash receipts from customers		46,958	50,979	55,627
Cash paid to suppliers and employees		(27,234)	(30,459)	(34,371)
Cash generated from operations	31	19,724	20,520	21,256
Interest received		482	422	433
Dividends received	6	50	3	—
Finance charges paid	32	(1,316)	(1,115)	(1,077)
Taxation paid	33	(4,550)	(5,690)	(4,277)
Cash generated from operations before dividend paid		14,390	14,140	16,335
Dividend paid	34	(4,884)	(4,784)	(5,732)
Cash flows from investing activities		(7,286)	(10,412)	(14,106)
Proceeds on disposal of property, plant and equipment and intangible assets		92	54	169
Proceeds on disposal of investments		493	77	8
Additions to property, plant and equipment and intangible assets		(7,396)	(10,037)	(11,657)
Acquisition of subsidiaries and minorities	35	—	(445)	(2,462)
Additions to other investments		(475)	(61)	(164)
Cash flows from financing activities		(258)	(2,920)	2,943
Loans raised		4,123	5,624	23,877
Loans repaid		(7,399)	(6,922)	(19,315)
Shares bought back and cancelled		(1,502)	(1,596)	(1,647)
Finance lease obligation repaid		(24)	(37)	(61)
Decrease in net financial assets		4,544	11	89
Net increase/(decrease) in cash and cash equivalents		1,962	(3,976)	(560)
Net cash and cash equivalents at beginning of the year		2,301	4,255	308
Effect of foreign exchange rate differences		(8)	29	44
Net cash and cash equivalents at end of the year	20	4,255	308	(208)

Notes to the consolidated annual financial statements

for the three years ended March 31, 2008

1. Corporate information

Telkom SA 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, its subsidiaries and joint ventures ('the Group') is to supply telecommunication, broadcasting, multimedia, technology, information and other related information technology services to the general public, as well as mobile communication services through the Vodacom Group (Proprietary) Limited ('Vodacom') in South Africa and certain other African countries. The Group's services and products include:

- fixed-line subscription and connection services to postpaid, prepaid and private payphone customers using PSTN lines, including ISDN lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to postpaid, prepaid and payphone customers, including local, long distance, fixed-to-mobile, international outgoing and international voice-over-internet protocol traffic services;
- 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 services, packet-based services, managed data networking services and internet access and related information technology services;
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services;
- mobile communications services, including voice services, data services, value-added services and handset sales through Vodacom; and
- other services including directory services, through our TDS Directory Operations Group, wireless data services, through our Swiftnet (Proprietary) Limited subsidiary, television media services through our Telkom Media Group, internet services outside South Africa, through our Africa Online Limited subsidiary and information, communication and telecommunication operating services in Nigeria, through our newly acquired Multi-Links Telecommunications Limited subsidiary.

- adoption of amendment to IAS1;
- adoption of IFRS7, IFRIC8, IFRIC9, IFRIC10, IFRIC11 and Circular 8/2007; and
- identification of a new segment.

The principal effects of these changes are discussed below.

Adoption of amendments to standards and new interpretations

The following revised standards and interpretations have been adopted during the year under review:

Amendment to IAS1 Presentation of Financial Statements

This amendment is effective for annual periods beginning on or after January 1, 2007. As a result of the pronouncement of IFRS7 Financial Instruments: Disclosures, IAS1 has been amended to require the disclosure of the entity's objective, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The impact of this amendment has been disclosed under note 12.

IFRS7 Financial Instruments: Disclosures

This standard is effective for annual periods beginning on or after January 1, 2007. IFRS7 supersedes disclosure in IAS32. All financial instruments disclosures will now be provided in terms of IFRS7. One of the main disclosure requirements added by IFRS7 is that an entity must group its financial instruments into classes of similar instruments, and when disclosures are required, make disclosures by class. IFRS7 also requires information about the significance of financial instruments and information about the nature and extent of risks arising from financial instruments. The impact of this standard is to expand on certain disclosures relating to financial instruments and requires certain additional disclosures (refer to note 12).

IFRIC8 Scope of IFRS2

The interpretation is effective for annual periods beginning on or after May 1, 2006. The interpretation clarifies that IFRS2 applies to transactions in which an entity receives goods or services as consideration for equity instruments of the entity. This includes transactions in which the entity cannot identify specifically some or all of the goods or services received. The impact of the interpretation on the consolidated annual financial statements is not material since the Group has not transacted with other parties using equity as a purchase consideration for the transaction, other than those paid to employees in share-based payment transactions.

IFRIC9 Reassessment of Embedded Derivatives

The interpretation is effective for annual periods beginning on or after June 1, 2006. The interpretation clarifies that an entity should assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. It further clarifies that reassessment is only allowed when there is a change in the terms of the contract which significantly modifies the cash flows that would otherwise be required under the contract. The interpretation does not have a material impact on the consolidated annual financial statements.

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2. Significant accounting policies

Basis of preparation

The consolidated annual financial statements comply with International Financial Reporting Standards ('IFRS') of the International Accounting Standards Board ('IASB') and the Companies Act of South Africa, 1973.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments and share-based payments which are measured at grant date fair value.

Details of the Group's significant accounting policies are set out below, and are consistent with those applied in the previous financial year except for the following:

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Adoption of amendments to standards and new interpretations (continued)

IFRIC10 Interim Financial Reporting and Impairment

The interpretation is effective for annual periods beginning on or after November 1, 2006. The interpretation clarifies that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or financial asset carried at cost. The interpretation does not have a material impact on the consolidated annual financial statements.

IFRIC11 IFRS2 – Group and Treasury Share Transactions

The interpretation is effective for annual periods beginning on or after March 1, 2007. The interpretation clarifies that regardless of whether the entity chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement by delivery of its own shares, the transaction should be accounted for as equity settled. This interpretation also applies regardless of whether the employee's rights to the equity instruments were granted by the entity itself or by its shareholders or was settled by the entity itself or its shareholders. Share-based payments involving the Group's own equity instruments in which the Group chooses or is required to buy its own equity instruments to settle the share-based payment obligation are currently accounted for as equity-settled share-based payment transactions under IFRS2. The interpretation has had no impact on the consolidated annual financial statements.

Circular 8/2007 Headline earnings

The circular was issued by the South African Institute of Chartered Accountants (SAICA) and is applicable for financial periods ending on or after August 31, 2007. Circular 8/2007 supersedes Circular 7/2002 and it defines rules for calculating headline earnings per share, which is an additional per share measure permitted by IAS33 Earnings per Share. It further requires a disclosure of a detailed reconciliation of headline earnings to the earnings numbers used in the calculation of basic earnings per share in accordance with the requirements of IAS33. The Group adopted the provisions of Circular 8/2007 in the reporting period beginning on April 1, 2007 and the adoption has had no impact other than additional disclosure as required by the Circular.

Accounting pronouncements not yet adopted

The Group has not early adopted the following standards, interpretations and amendments that have been issued and are not yet effective:

IFRS2 Vesting Conditions and Cancellations.

This amendment is effective for annual periods beginning on or after January 1, 2009. The amendments to IFRS2 Share-based Payment clarifies the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement. All features of a share-based payment

arrangement other than service conditions and performance conditions will be considered to be non-vesting conditions. IFRS2 (as revised) specifies that, when estimating the fair value of equity instruments granted, an entity shall take into account all non-vesting conditions (i.e. all conditions other than service and performance conditions) and vesting conditions that are market conditions (i.e. conditions that are related to the market price of the entity's equity instruments – for example, attaining a specified share price). The impact of this amendment is currently being evaluated.

IFRS3 Business Combinations-comprehensive revision on applying the acquisition method

The revised standard is effective for annual periods beginning on or after July 1, 2009. The revised IFRS3 requires the consideration for the acquisition, including the fair value of any contingent consideration payable to be measured at fair value at the acquisition date. The revised standard only permits subsequent changes to the measurement of contingent consideration as a result of additional information about facts and circumstances that existed at the acquisition date. All other changes (e.g. changes resulting from events after the acquisition date such as the acquiree meeting an earnings target, reaching a specified share price, or meeting a milestone on a research and development project) are recognised in profit or loss.

Acquisition-related costs are now required to be expensed.

Business combinations involving only mutual entities and business combinations achieved by contract alone have also been included in IFRS3.

Consequential amendments arising from revisions to IFRS3 on IAS27 Consolidated and separate financial statements

The revised IAS27 specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. No gain or loss is recognised on such transactions and goodwill is not re-measured. Any difference between the change in the Non Controlling Interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

Consequential amendments arising from revisions to IFRS3 on IAS28 Investments in Associates; IAS31 Interests in Joint Ventures

Amendments to IAS28 and IAS31 extend the treatment required for loss of control to these standards. For partial disposals of associates and joint ventures, the amended standards stipulate that if an investor loses significant influence over an associate, it derecognises that associate and recognises in profit or loss the difference between the sum of the proceeds received and any retained interest, and the carrying amount of the investment in the associate at the date significant influence is lost. A similar treatment is required when an investor loses joint control over a jointly controlled entity. The possible impact of this standard is currently being evaluated.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Accounting pronouncements not yet adopted (continued)

IFRS8 Operating Segments

This standard is effective for annual periods beginning on or after January 1, 2009. The significant change to the standard is that it requires segments to be disclosed based on the information that management uses to make decisions about operating matters. IFRS8 sets out the requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS8 further requires the entity to disclose factors used to identify the entity's operating segments and type of products and services from which each operating segment derives its revenues. The impact of this standard is currently being evaluated.

IAS1 Presentation of Financial Statements (revised)

The revised standard is effective for annual periods beginning on or after January 1, 2009. The changes made to IAS1 require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable users to analyse changes in a Group's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties). The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements.

The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles will be used in accounting standards, but are not mandatory for use in financial statements. The impact of this standard will be that the presentation of the financial statements will change.

IAS23 Borrowing Costs

The revised standard requires all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009. The Group does not expect the adoption of the standard to have a material impact since the Group has always applied the allowed alternative of capitalising borrowing costs under the current standard.

Amendment to IAS32 Financial Instruments Presentation and IAS1 Presentation of Financial Statements, puttable financial instruments

The amendment is effective for annual periods beginning on or after January 1, 2009. In January 2008, the IASB amended IAS32 and IAS1 Presentation of Financial Statements with respect to the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. As a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity. The impact of this amended standard is currently being evaluated.

IFRIC12 Service Concession Arrangements

The interpretation is effective for annual periods beginning on or after January 1, 2008. The interpretation clarifies that contractual service arrangements do not convey the right to control the use of the public service infrastructure to the operator, instead the operator acts as a service provider. The infrastructure under these arrangements shall therefore not be recognised as the property, plant and equipment of the operator. The operator shall recognise and measure revenue in accordance with IAS11 and IAS18 for the services it performs. The operator should recognise the asset as an intangible asset for the right (or licence) it receives to charge the users of the public service or as a financial asset when it has the right to receive cash from the grantor for construction services. The interpretation provides guidance on the recognition and measurement of the various aspects of service concession arrangements from an operator's perspective. The impact of this interpretation is currently being evaluated.

IFRIC13 Customer Loyalty Programmes

The interpretation is effective for annual periods beginning on or after July 1, 2008. The interpretation addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. It specifically requires these entities to recognise the obligation to provide free or discounted goods or services ('awards') to customers who redeem award credits. The interpretation requires companies to estimate the value of the points to the customer and defer this amount of revenue and recognise a liability until they have fulfilled their obligations to supply awards. In effect, the award is accounted for as a separate component of the sale transaction. The possible impact of this interpretation is currently being evaluated.

IFRIC14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The interpretation is effective for annual periods beginning on or after January 1, 2008. The interpretation addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS19 on the measurement of the defined benefit asset. When determining the limit on a defined benefit asset in accordance with IAS19.58, IFRIC14 requires an entity to measure any economic benefits available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan. The interpretation states that the employer only needs to have an unconditional right to use the surplus at some point during the life of the plan or on its wind up in order for a surplus to be recognised. The Group is currently evaluating the potential impact that the interpretation will have on the financial position or results of operations.

Significant accounting judgements and estimates

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

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, are as follows:

Revenue recognition

To reflect the substance of each transaction, revenue recognition criteria are applied to each separately identifiable component of a transaction. In order to account for multiple-element revenue arrangements in developing its accounting policies, the Group considered the guidance contained in the United States Financial Accounting Standards Board ('FASB') Emerging Issues Task Force No 00-21 Revenue Arrangements with Multiple Deliverables. Judgement is required to separate those revenue arrangements that contain the delivery of bundled products or services into individual units of accounting, each with its own earnings process, when the delivered item has stand-alone value and the undelivered item has fair value. Further judgement is required to determine the relative fair values of each separate unit of accounting to be allocated to the total arrangement consideration. Changes in the relative fair values could affect the allocation of arrangement consideration between the various revenue streams.

Judgement is also required to determine the expected customer relationship period. Any changes in these assessments may have a significant impact on revenue and deferred revenue.

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual categories of property, plant, equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry as well as Telkom's plan to migrate to a next generation network over the next few years, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 5.6. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives and what their condition will be like at that time.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Asset retirement obligations

Management judgement is exercised when determining whether an asset retirement obligation exists, and in determining the present value of expected future cash flows and discount rate when the obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its separate cash-generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identification of separate cash-generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs to sell. Management judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less costs to sell and value in use. Key assumptions on which management has based its determination of fair value less costs to sell include the existence of binding sale agreements, and for the determination of value in use include projected revenues, gross margins, average revenue per asset component, capital expenditure, expected customer bases and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment.

Impairment of other financial assets

At each balance sheet date management assesses whether there are indicators of impairment of financial assets, including equity investments. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management judgement is required when determining the expected future cash flows. To determine whether the decline in fair value is prolonged, reliance is placed on an assessment by management regarding the future prospects of the investee. In measuring impairments, quoted market prices are used, if available, or projected business plan information from the investee is used for those financial assets not carried at fair value.

Impairment of receivables

An impairment is recognised on trade receivables that are assessed to be impaired. The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment on their ability to make payments based on their credit worthiness and historical write-offs experience. Should the assumptions regarding the financial condition of the customer change, actual write-offs could differ significantly from the impaired amount.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

Leases

The determination of whether an arrangement is, or contains a lease is based on whether, at the date of inception, the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership.

Deferred taxation asset

Management judgement is exercised when determining the probability of future taxable profits which will determine whether deferred tax assets should be recognised or derecognised. The realisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised taxation credits, management needs to determine the extent that future payments are likely to be available for set-off. In the event that the assessment of future payments and future utilisation changes, the change in the recognised deferred tax asset must be recognised in profit or loss.

Taxation

The tax rules and regulations in South Africa as well as the other African countries within which the Group operates are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African tax laws to further develop through changes in South Africa's existing tax structure as well as clarification of the existing tax laws through published interpretations and the resolution of actual tax cases.

Management has made a judgement that all outstanding tax credits will be available for utilisation before the tax regime change is effective, despite the change of "secondary tax on companies" to withholding tax.

The growth of the Group, following its geographical expansion into other African countries over the past few years, has made the estimation and judgement required in recognising and measuring deferred taxation balances more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated income statement and the current taxation payments.

Group entities are regularly subject to evaluation, by the relevant tax authorities, of its historical tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules to the business of the relevant Group entities. These disputes may not necessarily be resolved in a manner that is favourable for the Group. Additionally the resolution of the disputes could result in an obligation for the Group that exceeds management's estimate. The Group has historically filed, and continues to file, all required income tax returns. Management believes that the principles applied in determining the Group's tax obligations are consistent with the principles and interpretations of the relevant countries' tax laws.

Deferred taxation rate

Management makes judgements on the tax rate applicable based on the Group's expectations at balance sheet date on how the asset is expected to be recovered or the liability is expected to be settled.

Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 29. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the expected return on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-retirement benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on long term South African government bonds with the longest maturity period as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

The overall expected rate of return on assets is determined based on the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

Telkom provides equity compensation in the form of the Telkom Conditional Share Plan to its employees. The related expense and reserve are determined through an actuarial valuation which relies heavily on assumptions. The assumptions include employee turnover percentages and whether specified performance criteria will be met. Changes to these assumptions could affect the amount of expense ultimately recognised in the financial statements.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

Provisions and Contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes 28 and 38 respectively. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Provisions are discounted where the effect of discounting is material based on management's judgement. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement. The Group is required to recognise provisions for claims arising from litigation when the occurrence of the claim is probable and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Held-to-maturity financial assets

Management have reviewed the Group's held-to-maturity financial assets in the light of its capital management and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity.

Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include those of Telkom, its foreign and domestic subsidiaries and joint ventures. Subsidiaries are those entities over which financial and operating policies the Group has the ability to exercise control, so as to obtain majority of the benefits from their activities. Joint ventures are those enterprises over which the group exercises joint control in terms of a contractual agreement. Joint ventures are accounted for using the proportionate consolidation method on a line by line basis. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Transactions with jointly controlled entities together with related unrealised gains and losses and resulting balances are eliminated to the extent of the Group's interest in the entities. Consolidation commences from the date that effective control passes to the Group.

Business combinations

On acquisition of a subsidiary or joint venture, any excess of the purchase price over the fair value of the Group's interest in the net assets is recognised as goodwill. Minority interests are calculated on the fair value of assets and liabilities. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

Minority shareholders are treated as equity participants and, therefore, all acquisitions of minority interest by the Group in subsidiary companies are accounted for using the parent entity extension method. Under this method, the assets and liabilities of the subsidiary are not restated to reflect their fair values at the date of the acquisition. The difference between the purchase price and the minority interest's share of the assets and liabilities reflected within the consolidated balance sheet at the date of the acquisition is therefore reflected as goodwill. Minority interests are separately presented in the consolidated financial statements.

Operating revenue

The Group provides fixed-line communication services, mobile communication services and other services. Other includes data services, directory services and communication related products. The Group provides such services to business, residential, payphone and mobile customers. Revenue represents the fair value of fixed or determinable consideration that has been received or is receivable.

Revenue for services is measured at amounts invoiced to customers and excludes Value Added Tax.

Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The value of components is determined using verifiable objective evidence. The Group does not provide customers with the right to a refund.

Fixed-line and Other

Subscriptions, connections and other usage

The Group provides telephone and data communication services under post paid and prepaid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected customer relationship period. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the expected average customer relationship period. All other installation and activation costs are expensed as incurred.

Post paid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Revenue related to sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service by the customer.

Traffic (Domestic, Fixed-to-mobile and International)

Prepaid

Prepaid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain prepaid products allow the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Operating revenue (continued)

Fixed-line and Other (continued)

Traffic (Domestic, Fixed-to-mobile and International) (continued)

Payphones

Payphone service coin revenue is recognised when the service is provided.

Payphone service card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Postpaid

Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

Interconnection

Interconnection revenue for call termination, call transit, and network usage is recognised as the traffic flow occurs.

Data

The Group provides data communication services under post paid and prepaid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected average customer relationship period. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the life of the expected average customer relationship period. All other installation and activation costs are expensed as incurred. Post paid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services

Included in other are directory services. Revenue is recognised when paper directories are released for distribution, as the significant risks and rewards of ownership have been transferred to the buyer. Electronic directories' revenue is recognised on a monthly basis, as earned.

Sundry revenue

Sundry revenue is recognised when the economic benefit flows to the Group and the earnings process is complete.

Dealer incentives

Telkom provides incentives to its retail payphone card distributors as trade discounts. Incentives are based on sales volume and value. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Mobile

The Vodacom Group invoices its independent service providers for the revenue billed by them on behalf of the Group. The Group, within its contractual arrangements with its agents, pays them

administrative fees. The Group receives in cash, the net amount equal to the gross revenue earned less the administrative fees payable to the agents.

Contract products

Contract products that may include deliverables such as a handset and 24-month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Vodacom revenue from the handset is recognised when the product is delivered limited to the amount of cash received.

Monthly service revenue received from the customer is recognised in the period in which the service is delivered. Airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products, where applicable, allow the carry over of unused airtime. The unused airtime is deferred in full. Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in revenue.

Prepaid products

Prepaid products that may include deliverables such as a SIM-card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the SIM-card representing activation fees is recognised over the average useful life of a prepaid customer.
- Airtime revenue is recognised on the usage basis. Unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer relationship, all deferred revenue for unused airtime is recognised in revenue.

Upon purchase of an airtime voucher the customer receives the right to make outgoing voice and data calls to the value of the airtime voucher. Revenue is recognised as the customer utilises the voucher.

Deferred revenue and costs related to unactivated starter packs which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated by a customer becomes remote. In this regard the Group applies a period of 36 months before these revenue and costs are released to the consolidated income statement.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Operating revenue (continued)

Mobile (continued)

Data

Revenue, net of discounts, from data services is recognised when the Group has performed the related service and depending on the nature of the service, is recognised either at the gross amounts billed to the customer or the amount receivable by the Group as commission for facilitating the service.

Equipment sales

All equipment sales are recognised only when delivery and acceptance has taken place. Equipment sales to third party service providers are recognised when delivery is accepted. No rights of return exist on sales to third party service providers.

Mobile number portability

Revenue transactions from mobile number portability are accounted for in terms of current business rules and revenue recognition policies above.

Interest on debtors' accounts

Interest is raised on overdue accounts on an effective interest rate method and recognised in the income statement.

Marketing

Marketing costs are recognised as an expense as incurred.

Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

Distribution incentives paid to service providers and dealers for exclusivity are deferred and expensed over the contractual relationship period.

Investment income

Dividends from investments are recognised on the date that the Group is entitled to the dividend. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

Taxation

Current taxation

The charge for current taxation is based on the results for the year and is adjusted for non-taxable income and non-deductible expenditure. Current taxation is measured at the amount expected to be paid to the taxation authorities, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is accounted for using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is not provided on the initial recognition of goodwill or initial recognition of assets or liabilities which is not a business

combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised, except in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures. Deferred income tax assets are recognised only to the extent that it is probable that temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

Deferred tax relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Exchange differences arising from the translation of foreign deferred taxation assets and liabilities of foreign entities where the functional currency is different to the local currency, are classified as a deferred taxation expense or income.

Secondary taxation on companies

Secondary taxation on companies ('STC') is provided for at a rate of 10% (12.5% before October 1, 2007) on the amount by which dividends declared by the Group exceeds dividends received. Deferred tax on unutilised STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for set-off.

Property, plant and equipment

At initial recognition acquired property, plant and equipment are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis at balance sheet date. The depreciable amount is determined after taking into account the residual value of the asset. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual values of assets are reviewed on an annual basis at balance sheet date.

Assets under construction represents freehold buildings, integral operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Freehold land is stated at cost and is not depreciated. Amounts paid by the Group on improvements to assets which are held in terms of operating lease agreements are depreciated on a straight-line basis over the shorter of the remaining useful life of the applicable asset or the remainder of the lease period. Where it is reasonably certain that the lease agreement will be renewed, the lease period equals the period of the initial agreement plus the renewal periods.

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years
Freehold buildings	15 to 40
Leasehold buildings	7 to 25
Network equipment	
Cables	20 to 40
Switching equipment	2 to 18
Transmission equipment	5 to 18
Other	1 to 20
Support equipment	5 to 13
Furniture and office equipment	2 to 15
Data processing equipment and software	3 to 10
Other	2 to 15

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Intangible assets

Goodwill

Goodwill on acquisition is initially measured as being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, allocated to cash-generating units where relevant. Goodwill on the acquisition of subsidiaries and joint ventures is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, once the impairment is recognised it is not reversed. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Licences, software, trademarks, copyrights and other

At initial recognition acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The residual value of intangible assets is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Due to the nature of the asset the residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the asset's useful life, which can be used to estimate the residual values. The residual values of intangible assets, amortisation methods and their useful lives are reviewed on an annual basis at balance sheet date.

Intangible assets with indefinite useful lives and intangible assets not yet available for use, are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Intangible assets (continued)

Licences, software, trademarks, copyrights and other (continued)

Assets under construction represent application and other non integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Intangible assets are derecognised when they have been disposed of or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of assets are recognised in the income statement in the year in which they arise.

The expected useful lives assigned to intangible assets are:

	Years
Licences	5 to 30
Software	2 to 10
Trademarks, copyrights and other	3 to 15

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment and intangible assets are recognised at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges and fair value movements. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate are accounted for as increases or decreases to the original cost of the recognised assets. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification. Assets are no longer depreciated when they are classified into the category.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

Impairment of property, plant and equipment and intangible assets

The Group regularly reviews its assets, other than financial instruments, and cash-generating units for any indication of impairment. When indicators, including changes in technology,

market, economic, legal and operating environments occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed.

The recoverable amount of assets or cash-generating units is measured using the higher of the fair value less costs to sell and its value in use, which is the present value of projected cash flows covering the remaining useful lives of the assets. Impairment losses are recognised when the asset's carrying value exceeds its estimated recoverable amount. Where applicable, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that it may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed through the income statement if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. Impairment on goodwill is not reversed.

Repairs and maintenance

The Group expenses all costs associated with repairs and maintenance, unless it is probable that such costs would result in increased future economic benefits flowing to the Group, and the costs can be reliably measured.

Borrowing costs

Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Group borrowings was utilised. Other borrowing costs are expensed as incurred.

Deferred revenue and expenses

Activation revenue and costs are recognised in accordance with the principles contained in Emerging Issues Task Force Issue No 00-21, Revenue Arrangements with Multiple Deliverables ('EITF 00-21'), issued in the United States. This results in activation revenue and costs up to the amount of the deferred revenue being deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. The excess of the costs over revenues is expensed immediately.

Inventories

Installation material, maintenance and network equipment inventories are stated at the lower of cost, determined on a weighted average basis, or estimated net realisable value. Merchandise inventories are stated at the lower of cost, determined on a first-in first-out ('FIFO') basis, or estimated net realisable value. Write-down of inventories arises when, for example, goods are damaged or when net realisable value is lower than carrying value.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Financial instruments

Recognition and initial measurement

All financial instruments are initially recognised at fair value, plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the Group becomes a party to their contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Subsequent to initial recognition, the Group classifies financial assets as 'at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables', or 'available-for-sale'. The measurement of each is set out below and presented in a table in note 12.

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis.

Financial assets at fair value through profit or loss

The Group classifies financial assets that are held for trading in the category 'financial assets at fair value through profit or loss'. This category includes bills of exchange and promissory notes. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives not designated as hedges are also classified as held for trading. On remeasurement to fair value the gains or losses on held for trading financial assets are recognised in net finance charges and fair value movements for the year.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'finance charges and fair value movements' in the period which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payment is established.

Held-to-maturity financial assets

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity when the Group has the positive intention and ability to hold to maturity. This category includes bills of exchange and promissory notes. These assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method. This calculation includes all fees paid or received between parties to the contract. For investments carried at amortised cost, gains and losses are recognised in net profit or loss when the investments are sold or impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Trade receivables are subsequently measured at the original invoice amount where the effect of discounting is not material.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are designated as available-for-sale, or are not classified in any of the three preceding categories. Equity instruments are all treated as available-for-sale financial instruments. After initial recognition, available-for-sale financial assets are measured at fair value, with gains and losses being recognised as a separate component of equity.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised directly in equity. When an investment is derecognised or determined to be impaired, the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss ('FVTPL') where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading:

- if it is acquired for the purpose of settling in the near term; or
- if it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at a FVTPL are stated at fair value, with any resultant gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised in finance charges and fair value movements, on an effective yield basis.

The effective interest rate is the rate that accurately discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial guarantee contracts

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognised less, when appropriate, cumulative amortisation, recognised in accordance with IAS18 Revenue.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Financial instruments (continued)

Put option

A contract that contains an obligation for the Group to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability and is accounted for at the present value of the redemption amount. On initial recognition its fair value is reclassified directly from equity. Subsequent changes in the liability are included in profit or loss. On expiry or exercise of the option the carrying value of the liability is reclassified directly to equity.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. This comprise cash on hand, deposits held on call and term deposits with an initial maturity of less than three months when entered into.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Capital and money market transactions

New bonds and commercial paper bills issued are subsequently measured at amortised cost using the effective interest rate method.

Bonds issued where Telkom is a buyer and seller of last resort are carried at fair value. The Group does not actively trade in bonds.

Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the Group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year. For available-for-sale assets, the fair value adjustment relating to prior revaluations of assets is transferred from equity and recognised in finance charges and fair value movements for the year.

Bonds and commercial paper bills are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges and fair value movements for the year.

Impairment of financial assets

At each balance sheet date an assessment is made of whether there are any indicators of impairment of a financial asset or a group of financial assets based on observable data about one or more loss events that occurred after the initial recognition of the asset or the group of assets. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed

through the income statement. The recoverable amount of financial assets carries at amortised cost is calculated as the present value of expected future cash flows discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss for financial assets decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed except for those financial assets classified as available-for-sale and carried at cost that are not reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available-for-sale are not recognised. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised through the income statement.

Foreign currencies

Each entity within the Group determines its functional currency. The Group's presentation currency is the South African Rand ('ZAR').

Transactions denominated in foreign currencies are measured at the rate of exchange at transaction date. Monetary items denominated in foreign currencies are remeasured at the rate of exchange at settlement date or balance sheet date whichever occurs first. Exchange differences on the settlement or translation of monetary assets and liabilities are included in finance charges and fair value movements in the period in which they arise.

The annual financial statements of foreign operations are translated into South African Rand, the Group's presentation currency, for incorporation into the consolidated annual financial statements. Assets and liabilities are translated at the foreign exchange rates ruling at the balance sheet date. Income, expenditure and cash flow items are measured at the actual foreign exchange rate or average foreign exchange rates for the period. All resulting unrealised exchange differences are classified as equity. On disposal, the cumulative amounts of unrealised exchange differences that have been deferred are recognised in the consolidated income statement as part of the gain or loss on disposal.

All gains and losses on the translation of equity loans to foreign operations that are intended to be permanent whether they are denominated in one of the entities functional currencies or in a third currency, are recognised in equity.

Goodwill and intangible assets arising on the acquisition of a foreign operation are treated as assets of the foreign operation and translated at the foreign exchange rates ruling at balance sheet date.

Treasury shares

Where the Group acquires, or in substance acquires, Telkom shares, such shares are measured at cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such shares are not remeasured for changes in fair value.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Insurance contracts

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The net earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained earnings.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Where the Group enters into a service agreement as a supplier or a customer that depends on the use of a specific asset, and conveys the right to control the use of the specific asset, the arrangement is assessed to determine whether it contains a lease. Once it has been concluded that an arrangement contains a lease, it is assessed against the criteria in IAS17 to determine if the arrangement should be recognised as a finance lease or operating lease.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

Lessee

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease finance costs are amortised in the income statement over the lease term using a constant periodic rate of interest. Where a sale and leaseback transaction results in a

finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the income statement over the term of the lease.

Lessor

Operating lease revenue is recognised in the income statement on a straight-line basis over the lease term.

Assets held under a finance lease are recognised in the balance sheet and presented as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined contribution plans

The Group's funding of the defined contribution plans is charged to employee expenses in the same year as the related service is provided.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, as adjusted for unrecognised actuarial gains and losses, unrecognised past service costs and reduced by the fair value of the related plan assets. The amount of any surplus recognised and reflected as deferred expenses is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised. No gain is recognised solely as a result of an actuarial loss or past service cost in the current period and no loss is recognised solely as a result of an actuarial gain or past service cost in the current period.

Actuarial gains and losses are recognised as employee expenses when the cumulative unrecognised gains and losses for each individual plan exceed 10% of the greater of the present value of the Group's obligation and the fair value of plan assets at the beginning of the year. These gains or losses are amortised on a straight-line basis over ten years for all the defined benefit plans, except gains or losses related to the pensioners in the Telkom Retirement Fund or unless the standard required faster recognition. For the Telkom Retirement Fund pensioners, the cumulative unrecognised actuarial gains and losses in excess of the 10% corridor at the beginning of the year are recognised immediately.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

2. Significant accounting policies (continued)

Employee benefits (continued)

Defined benefit plans (continued)

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise they are recognised on a straight-line basis over the average period the benefits become vested.

Leave benefits

Annual leave is provided for over the period that the leave accrues and is subject to a cap of 22 days.

Workforce reduction

Workforce reduction expenses are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Workforce reduction benefits are recognised when the entity is demonstrably committed and it is probable that the expenses will be incurred. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

Deferred bonus incentives

Employees of the wholly owned subsidiaries of Vodacom, including executive directors, are eligible for compensation benefits in the form of a Deferred Bonus Incentive Scheme. The benefit is recorded at the present value of the expected future cash outflows.

Share-based compensation

The grants of equity instruments, made to employees in terms of the Telkom Conditional Share Plan, are classified as equity-settled share-based payment transactions. The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date, adjusted for the lack of entitlement to dividends during the vesting period. This compensation cost is recognised over the vesting period, based on the best available estimate at each balance sheet date of the number of equity instruments that are expected to vest.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the year the employees render services, unless the Group uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment or intangible asset item.

Long-term incentive provision

The Vodacom Group provides long-term incentives to eligible employees payable on termination or retirement. The Group's liability is based on an actuarial valuation. Actuarial gains and losses are recognised as employee expenses.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

Segmental reporting

As of the beginning of the year the Group identified a new segment called 'Other', and is now managed in three business segments, which form the primary segment reporting basis: Fixed-line, Mobile and Other. The Other business segment includes newly acquired Multi-Links Telecommunications Limited and Africa Online Limited, as well as the Telkom Media Group. It also includes TDS Directory Operations Group and Swiftnet (Proprietary) Limited, which were previously included in the Fixed-line segment. The corporate information has also been updated to reflect the above changes.

The Group's three segments operate in South Africa, and other African countries. The geographical location of the Group's customers has been identified as the secondary basis for segment reporting.

The Fixed-line business segment provides local telephony and data, domestic and international long-distance services as well as leased lines, data transmission and internet access.

The Mobile business segment provides mobile telephony services as well as the sale of mobile equipment.

The Other business segment provides directory services, fixed, mobile, data and international telecommunication services throughout other African countries.

Inter-segment transactions are accounted for in the same way as transactions to third parties at current market prices.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

3. Revenue

3.1 Total revenue

	48,260	52,157	56,865
Operating revenue	47,625	51,619	56,285
Other income (excluding profit on disposal of property, plant and equipment, intangible assets and investments, refer to note 4)	238	303	383
Investment income (refer to note 6)	397	235	197

3.2 Operating revenue

	47,625	51,619	56,285
Fixed-line	31,832	32,345	32,572
Mobile	17,021	20,573	24,089
Other	952	979	1,993
Eliminations	(2,180)	(2,278)	(2,369)
Fixed-line	31,832	32,345	32,572
Subscriptions, connections and other usage	5,803	6,286	6,330
Traffic	17,563	16,740	15,950
Domestic (local and long distance)	8,915	7,563	6,328
Fixed-to-mobile	7,647	7,646	7,557
International (outgoing)	1,001	988	986
Subscription based calling plans *	—	543	1,079
Interconnection	1,654	1,639	1,757
Data	6,674	7,489	8,308
Sundry revenue	138	191	227
Mobile	17,021	20,573	24,089
Airtime and access	10,043	11,854	13,548
Data revenue	1,019	1,671	2,501
Interconnect revenue	3,348	3,918	4,443
Equipment sales	1,993	2,350	2,526
International airtime	486	653	918
Other	132	127	153

*The Group has reclassified calling plans from domestic traffic into a separate revenue line item to disclose revenue earned from subscription based calling plans. Amounts for the year ended March 31, 2006 were not restated as they were considered to be immaterial.

Fixed-line revenue has been restated as a result of changes in the segment structure.

4. Other income

	480	384	534
Other income (included in Total revenue, refer to note 3)	238	303	383
Interest received from trade receivables	136	190	257
Sundry income	102	113	126
Profit on disposal of property, plant and equipment and intangible assets	79	29	147
Profit on disposal of investment and subsidiary	163	52	4

The increase in profit on disposal of property, plant and equipment and intangible assets is due to the increased volumes and values on the sale of Telkom properties in alignment with Telkom's strategy of disposing of non-core assets.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
5. Operating expenses			
Operating expenses comprise:			
5.1 Employee expenses	7,489	8,454	9,220
Salaries and wages	5,566	6,362	7,144
Medical aid contributions	371	385	417
Retirement contributions	435	496	598
Post-retirement pension and retirement fund (refer to note 29)	(58)	33	5
Current service cost	4	5	5
Interest cost	364	329	509
Expected return on plan assets	(454)	(508)	(713)
Actuarial loss/(gain)	78	(136)	(16)
Settlement loss	–	21	(2)
Asset limitation	(50)	322	222
Post-retirement medical aid (refer to note 28 and 29)	361	330	278
Current service cost	48	83	84
Interest cost	249	286	322
Expected return on plan asset	–	(188)	(257)
Actuarial loss	63	149	129
Settlement loss	7	–	–
Curtailment gain	(6)	–	–
Telephone rebates (refer to note 28 and 29)	19	104	27
Current service cost	3	4	3
Interest cost	16	19	22
Past service cost	–	76	2
Actuarial loss	–	5	–
Share-based compensation expense (refer to note 23)	127	141	522
Other benefits*	1,288	1,299	1,015
Employee expenses capitalised	(620)	(696)	(786)
*Other benefits Other benefits include skills development, annual leave, performance incentive and service bonuses.			
5.2 Payments to other operators	6,826	7,590	9,169
Payments to other network operators consist of expenses in respect of interconnection with other network operators.			
5.3 Selling, general and administrative expenses	10,273	12,902	14,409
Selling and administrative expenses	7,240	9,248	10,352
Maintenance	1,928	2,286	2,508
Marketing	899	1,215	1,249
Bad debts (refer to note 18)	206	153	300

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

5. Operating expenses (continued)

5.4 Service fees	2,114	2,291	2,571
Facilities and property management	1,110	1,142	1,228
Consultancy services	182	266	291
Security and other	772	821	982
Auditors' remuneration	50	62	70
Audit services	38	61	69
Company auditors	28	48	46
Current year	26	47	43
Prior year underprovision	2	1	3
Other auditors – current year	10	13	23
Audit related services	9	–	1
Company auditors – current year	6	–	–
Other auditors	3	–	1
Other services	3	1	–

The increase in security costs is mainly attributable to Telkom's drive to minimise cable theft.

5.5 Operating leases	850	981	838
Land and buildings	221	284	170
Transmission and data lines	42	63	187
Equipment	78	80	50
Vehicles	509	554	431
5.6 Depreciation, amortisation, impairment and write-offs	5,876	5,315	6,130
Depreciation of property, plant and equipment (refer to note 10)	5,154	4,483	4,855
Amortisation of intangible assets (refer to note 11)	560	536	746
Impairment of property, plant and equipment and intangible assets (refer to note 10 and 11)	–	12	244
Reversal of impairment of property, plant and equipment (refer to note 10)	(26)	–	–
Write-offs of property, plant and equipment and intangible assets (refer to note 10 and 11)	188	284	285

In recognition of the changed usage patterns of certain items of property, plant and equipment and intangible assets, the Group reviewed their remaining useful lives as at March 31. The assets affected were certain items included in Network equipment, Support equipment, Furniture and office equipment, Data processing equipment and software and Intangible assets. The revised estimated useful lives of these assets as set out below, resulted in a decrease of the current year depreciation and amortisation charges of R198 million (2007: R983 million).

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Previous life Years	Revised life Years
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5. Operating expenses (continued)

5.6 Depreciation, amortisation, impairment and write-offs (continued)

Property, plant and equipment

Network equipment	5 – 18	2 – 18
Switching equipment	2 – 20	1 – 20
Other	8 – 13	5 – 13
Support equipment	4 – 15	2 – 15
Furniture and office equipment	5 – 10	3 – 10
Data processing equipment and software		

Intangible assets

Subscriber bases	3 – 8	4 – 10
Software	5 – 10	2 – 10

	2006 Rm	2007 Rm	2008 Rm
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6. Investment income

	397	235	197
Interest received	347	232	197
Dividends received from investments	50	3	–

Included in investment income is an amount of R169 million (2007: R222 million; 2006: R347 million) which relates to interest earned from financial assets not measured at fair value through profit or loss.

7. Finance charges and fair value movements

	1,223	1,125	1,803
Finance charges on interest-bearing debt	1,346	1,327	1,885
Local debt	1,506	1,488	2,041
Foreign debt	9	–	19
Less: Finance costs capitalised	(169)	(161)	(175)
Foreign exchange gains and losses and fair value movement	(123)	(202)	(82)
Foreign exchange losses	47	246	114
Fair value adjustments on derivative instruments	(170)	(448)	(196)

Capitalisation rate 13.91% 14.77% 12.60%

During the year gains of R8 million (2007: RNil; 2006: RNil) from available-for-sale instruments were recognised directly in equity.

Included in finance charges is an amount of R1,831 million (2007: R1,321 million; 2006: R1,341 million) which relates to interest paid on financial liabilities not measured at fair value through profit or loss.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
8. Taxation	4,523	4,731	4,704
South African normal company taxation	3,763	3,528	3,756
Current tax	3,754	3,564	3,764
Underprovision/(overprovision) for prior year	9	(36)	(8)
Deferred taxation	173	516	219
Temporary differences – normal company taxation	229	584	141
Temporary difference – Secondary Taxation on Companies ('STC') tax credits utilised/(raised)	51	(69)	190
Change in tax rate	–	–	(59)
(Overprovision)/underprovision for prior year	(107)	1	(53)
Secondary Taxation on Companies	585	670	678
Foreign taxation	2	17	51
<p>The net deferred taxation expense results mainly from the extension of useful lives, offset slightly by an increase in the STC tax credits.</p> <p>The STC expense was provided for at a rate of 10% (12.5% before October 1, 2007) on the amount by which dividends declared exceeded dividends received. Deferred tax expense relating to STC credits are provided for at a rate of 10%.</p>			
Reconciliation of taxation rate	%	%	%
Effective rate	32.7	34.9	36.5
South African normal rate of taxation	29.0	29.0	29.0
Adjusted for:	3.7	5.8	7.5
Change in tax rate	–	–	(0.5)
Exempt income	(1.3)	(0.2)	(0.5)
Disallowable expenditure	0.9	1.2	2.9
Tax losses not utilised	0.6	–	(0.7)
STC tax credits utilised/(raised)	0.4	(0.3)	1.5
STC tax charge	4.2	4.9	5.3
Capital gains tax	–	0.8	–
Net overprovision for prior year	(1.1)	(0.5)	(0.5)
Utilisation of assessed loss	–	(0.1)	–

Where required, provisions have been made or adjusted for anticipated obligations related to various ongoing investigations by tax authorities on indirect taxes. The provisions made include estimates of anticipated interest and penalties where appropriate. As of March 31, 2008, the Group has accrued for tax obligations in the amount of RNil million (2007: RNil; 2006: R199 million). These amounts represent what management believes will be the probable outcome of such disputes for all tax years for which additional taxes can be assessed.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
9. Earnings per share			
Basic earnings per share (cents)	1,746.1	1,681.0	1,565.0
<p>The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R7,975 million (2007: R8,646 million; 2006: R9,189 million) and 509,595,092 (2007: 514,341,284; 2006: 526,271,095) weighted average number of ordinary shares in issue.</p>			
Diluted earnings per share (cents)	1,736.6	1,676.3	1,546.9
<p>The calculation of diluted earnings per share is based on earnings for the year of R7,975 million (2007: R8,646 million; 2006: R9,189 million) and 515,541,968 diluted weighted average number of ordinary shares (2007: 515,763,581; 2006: 529,152,320). The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.</p>			
Headline earnings per share (cents)*	1,728.6	1,710.7	1,634.8
<p>The calculation of headline earnings per share is based on headline earnings of R8,331 million (2007: R8,799 million; 2006: R9,097 million) and 509,595,092 (2007: 514,341,284; 2006: 526,271,095) weighted average number of ordinary shares in issue.</p>			
Diluted headline earnings per share (cents)*	1,719.2	1,706.0	1,616.0
<p>The calculation of diluted headline earnings per share is based on headline earnings of R8,331 million (2007: R8,799 million; 2006: R9,097 million) and 515,541,968 (2007: 515,763,581; 2006: 529,152,320) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.</p>			
Reconciliation of weighted average number of ordinary shares:			
Ordinary shares in issue (refer to note 21)	557,031,821	544,944,901	532,855,530
Weighted average number of shares bought back	(7,211,710)	(7,442,253)	(1,594,241)
Weighted average number of treasury shares	(23,549,016)	(23,161,364)	(21,666,197)
Weighted average number of shares outstanding	526,271,095	514,341,284	509,595,092

*The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular issued in this regard.

The effect of the increase in the interest expense as a result of the increase in borrowings is a reduction in the basic earnings per share of 63.4 cents and a reduction in headline earnings per share of 62.7 cents.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Gross* Rm	Net Rm
9. Earnings per share (continued)		
2008		
Reconciliation between earnings and headline earnings:		
Earnings as reported		7,975
Profit on disposal of investments (Available-for-sale)	(4)	(3)
Profit on disposal of property, plant and equipment and intangible assets	(147)	(104)
Impairment loss on property, plant and equipment and intangible assets	248	244
Write-offs of property, plant and equipment and intangible assets	285	219
Headline earnings		8,331
2007		
Reconciliation between earnings and headline earnings:		
Earnings as reported		8,646
Profit on disposal of investments (Available-for-sale)	(52)	(37)
Profit on disposal of property, plant and equipment and intangible assets	(29)	(21)
Impairment loss on property, plant and equipment and intangible assets	12	9
Write-offs of property, plant and equipment and intangible assets	284	202
Headline earnings		8,799
2006		
Reconciliation between earnings and headline earnings:		
Earnings as reported		9,189
Profit on disposal of investments (Available-for-sale)	(163)	(116)
Profit on disposal of property, plant and equipment and intangible assets	(79)	(56)
Reversal of impairment loss on property, plant and equipment and intangible assets	(26)	(18)
Write-offs of property, plant and equipment and intangible assets	188	133
Acquisition of subsidiary	(35)	(35)
Headline earnings		9,097

*These are the gross amounts, before deducting taxation and minority interests.

	2006	2007	2008
Reconciliation of diluted weighted average number of ordinary shares:			
Weighted average number of share outstanding	526,271,095	514,341,284	509,595,092
Expected future vesting of shares	2,881,225	1,422,297	5,946,876
Dilluted weighted average number of shares outstanding	529,152,320	515,763,581	515,541,968
Dividend per share (cents)	900.0	900.0	1,100.0

The calculation of dividend per share is based on dividends of R5,627 million (2007: R4,678 million; 2006: R4,801 million) declared on June 8, 2007 and 511,513,239 (2007: 519,711,238; 2006: 533,465,573) number of ordinary shares outstanding on the date of dividend declaration. The reduction in the number of shares represents the number of treasury shares held on date of payment.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006			2007			2008		
	Accumulated		Carrying value	Accumulated		Carrying value	Accumulated		Carrying value
	Cost	depreciation		Cost	depreciation		Cost	depreciation	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
10. Property, plant and equipment									
Freehold land and buildings	4,510	(1,811)	2,699	4,594	(1,837)	2,757	4,931	(2,010)	2,921
Leasehold buildings	940	(322)	618	926	(362)	564	1,052	(418)	634
Network equipment	59,418	(30,477)	28,941	63,003	(31,820)	31,183	69,572	(35,214)	34,358
Support equipment	3,740	(2,419)	1,321	4,045	(2,436)	1,609	4,355	(2,635)	1,720
Furniture and office equipment	469	(335)	134	536	(366)	170	568	(377)	191
Data processing equipment and software	5,612	(3,530)	2,082	5,836	(3,707)	2,129	6,279	(3,904)	2,375
Under construction	1,320	–	1,320	2,536	–	2,536	4,200	–	4,200
Other	552	(393)	159	860	(554)	306	1,046	(630)	416
	76,561	(39,287)	37,274	82,336	(41,082)	41,254	92,003	(45,188)	46,815

A major portion of this capital expenditure relates to the expansion of existing networks and services. An extensive build program with focus on Next Generation Network technologies has resulted in an increase in property, plant and equipment additions which is expected to continue over the next few years.

Fully depreciated assets with a cost of R498 million (2007: R1,225 million; 2006: R3,724 million) were derecognised in the 2008 financial year. This has reduced both the cost price and accumulated depreciation of property, plant and equipment.

Property, plant and equipment with a carrying value of R681 million (2007: R575 million; 2006: R624 million) are pledged as security. Details of the loans are disclosed in note 27.

The carrying amounts of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year	Additions	Business combinations	Foreign currency Transfers	Impairment, write-offs and reversals	Disposals	Depreciation	Carrying value at end of year
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2008								
Freehold land and buildings	2,757	300	22	27	2	(3)	(8)	2,921
Leasehold buildings	564	136	26	32	1	(67)	(1)	634
Network equipment	31,183	5,167	404	1,301	272	(136)	(107)	34,358
Support equipment	1,609	316	1	116	3	(8)	–	1,720
Furniture and office equipment	170	78	3	1	1	(8)	(1)	191
Data processing equipment and software	2,129	525	31	150	6	(19)	(2)	2,375
Under construction	2,536	3,416	135	(1,737)	2	(152)	–	4,200
Other	306	170	8	11	7	(2)	(3)	416
	41,254	10,108	630	(99)	294	(395)	(122)	46,815

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Carrying value at beginning of year Rm	Additions Rm	Business combi- nations Rm	Transfers Rm	Foreign currency trans- lation Rm	Impair- ment, write-offs and reversals Rm	Disposals Rm	Depre- ciation Rm	Carrying value at end of year Rm
10. Property, plant and equipment (continued)									
2007									
Freehold land and buildings	2,699	209	—	—	2	17	(1)	(169)	2,757
Leasehold buildings	618	—	—	1	—	—	(14)	(41)	564
Network equipment	28,941	5,154	1	849	240	(199)	(270)	(3,533)	31,183
Support equipment	1,321	442	—	109	2	(15)	—	(250)	1,609
Furniture and office equipment	134	51	3	8	1	—	—	(27)	170
Data processing equipment and software	2,082	466	12	(36)	8	(10)	(2)	(391)	2,129
Under construction	1,320	2,165	—	(912)	—	(37)	—	—	2,536
Other	159	161	—	58	4	(1)	(3)	(72)	306
	37,274	8,648	16	77	257	(245)	(290)	(4,483)	41,254
2006									
Freehold land and buildings	2,665	105	—	174	—	(22)	(21)	(202)	2,699
Leasehold buildings	618	75	—	(1)	—	—	—	(74)	618
Network equipment	28,336	2,622	—	2,228	(122)	(49)	(21)	(4,053)	28,941
Support equipment	1,355	130	—	106	(1)	(6)	(5)	(258)	1,321
Furniture and office equipment	155	19	—	4	—	—	—	(44)	134
Data processing equipment and software	2,035	381	1	153	(2)	(10)	(1)	(475)	2,082
Under construction	1,084	2,933	—	(2,622)	—	(75)	—	—	1,320
Other	200	45	—	(29)	(1)	—	(8)	(48)	159
	36,448	6,310	1	13	(126)	(162)	(56)	(5,154)	37,274

Full details of land and buildings are available for inspection at the registered offices of the Group.

In March 2006 the Group started a process of determining whether an asset which incorporates both a tangible and an intangible element, should be recognised as tangible or intangible assets, based on management judgement and on facts available and the significance of each element to the total value of the asset. This ongoing process has resulted in further assets with a carrying value to the net amount of R99 million (2007: R77 million ; 2006: R13 million) being reclassified between intangible assets and property, plant and equipment in the current year.

The Group does not have temporary idle property, plant and equipment.

During the current year, the Group recognised an impairment loss relating to Telkom Media assets. The recoverable amount for certain items of property, plant and equipment and intangible assets were estimated, and an impairment loss of R217 million was recognised in order to reduce the carrying amount of those assets to their recoverable amount. The impairment has been included in impairment, write-offs and reversals.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006			2007			2008		
	Accumulated		Carrying value	Accumulated		Carrying value	Accumulated		Carrying value
	Cost	amortisation		Cost	amortisation		Cost	amortisation	
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
11. Intangible assets									
Goodwill	305	–	305	673	–	673	3,255	–	3,255
Trademarks, copyrights and other	685	(472)	213	761	(521)	240	1,127	(633)	494
Licences	155	(95)	60	222	(116)	106	311	(140)	171
Software	5,607	(3,338)	2,269	6,720	(3,737)	2,983	8,106	(4,298)	3,808
Under construction	1,063	–	1,063	1,109	–	1,109	740	–	740
	7,815	(3,905)	3,910	9,485	(4,374)	5,111	13,539	(5,071)	8,468

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning		Business combinations	Transfers	Foreign currency translation	Impairment and write-offs	Disposals	Amortisation	Carrying value at end of year
	of year	Additions							
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2008									
Goodwill	673	492	1,727	–	375	(12)	–	–	3,255
Trademarks, copyrights and other	240	174	165	–	20	–	–	(105)	494
Licences	106	32	36	–	15	(3)	–	(15)	171
Software	2,983	739	–	713	9	(10)	–	(626)	3,808
Under construction	1,109	354	–	(614)	–	(109)	–	–	740
	5,111	1,791	1,928	99	419	(134)	–	(746)	8,468
2007									
Goodwill	305	186	173	–	9	–	–	–	673
Trademarks, copyrights and other	213	8	69	–	–	–	–	(50)	240
Licences	60	47	1	–	8	–	–	(10)	106
Software	2,269	628	–	559	7	(4)	–	(476)	2,983
Under construction	1,063	729	–	(636)	–	(47)	–	–	1,109
	3,910	1,598	243	(77)	24	(51)	–	(536)	5,111
2006									
Goodwill	269	–	37	–	(1)	–	–	–	305
Trademarks, copyrights and other	199	2	91	2	–	–	–	(81)	213
Licences	64	1	–	–	(1)	–	–	(4)	60
Software	1,745	219	–	801	(2)	–	(19)	(475)	2,269
Under construction	905	974	–	(816)	–	–	–	–	1,063
	3,182	1,196	128	(13)	(4)	–	(19)	(560)	3,910

Intangible assets that are material to the Group consist of Software and Goodwill. The average remaining amortisation period for Software is between 2 and 10 years.

Telkom

Goodwill has been allocated for impairment testing purposes to twelve cash-generating units of which one in South Africa, one in Nigeria being Multi-Links Telecommunications Limited and ten being Africa Online Limited in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia, operations (Mauritius) and Zimbabwe.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

11. Intangible assets (continued)

Nigeria

The carrying amount of goodwill is R2,072 million.

The recoverable amount for Multi-Links Telecommunications Limited ('Multi-Links') has been determined on the basis of a value in use calculation. The value in use calculation uses cash flow projections and a discount rate of 18.43%. It was concluded that Multi-Links is not impaired. The valuation was based on cash flow projections based on financial budgets approved by management covering a ten year period and a 1% terminal growth rate was used. A ten year period was used as the expected growth rates are in excess of the long-term average growth rates beyond a five year period.

Kenya

The carrying amount of goodwill is R155 million.

The recoverable amounts of goodwill relating to Africa Online Limited have been determined on the basis of value in use calculations. Goodwill was only tested against the three cash-generating units namely; Kenya, Tanzania and Ghana, which amongst them share 82% of the total goodwill per the allocation. The value in use calculations use cash flow projections and a discount at a rate of 11.59% in US Dollar terms. It was determined that goodwill associated with two cash-generating units; Tanzania and Ghana was impaired. The value in use calculations use cash flow projections based on financial budgets covering a three year period and a terminal growth rate of 0% was used.

By the Group's 50% joint venture, Vodacom

Goodwill has been allocated for impairment testing purposes to six cash-generating units of which four are in South Africa, one in the Democratic Republic of the Congo and one in Tanzania.

South Africa

The carrying amount of goodwill is R1,739 million (Group share: R870 million).

The recoverable amounts of goodwill relating to Vodacom Service Provider Company (Proprietary) Limited, Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel VAS (Proprietary) Limited have been determined on the basis of value in use calculations. These companies operate in the same economic environment for which the same key assumptions were used. These value in use calculations use cash flow projections based on financial budgets approved by management covering a ten year period and discount rates of between 12.0% and 15.0% in South African Rand terms. The terminal growth rate applicable is between 4.0% and 6.0%. Management believes that any reasonable change in any of these key assumptions would not cause the aggregate carrying amount of these companies to exceed the aggregate recoverable amount of these units.

Democratic Republic of Congo

The carrying amount of goodwill is R148 million (Group share: R74 million).

The recoverable amount of this cash-generating unit was based on a value in use calculation for Vodacom Congo (RDC) s.p.r.l. The calculation uses cash flow projections based on financial budgets approved by management covering a ten year period and a discount rate which ranged between 16.0% and 19.0% in US Dollar terms. Cash flows beyond this period have been extrapolated using annual nominal growth rates which ranged between 2.0% and 5.0%. A ten year period is used where expected growth rates are in excess of the long-term average growth rates beyond an initial five year period, for the markets in which they operate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Key assumptions used in the testing of goodwill for impairment:

Applicable to all cash-generating units

Expected customer base: The basis for determining value(s) assigned to key assumptions is based on the closing customer base in the period immediately preceding the budget period and increased for expected growth. The value assigned to key assumptions reflects past experience, and has an element of potential growth. The growth is based on market assumptions.

Gross Margin: The basis for determining value(s) assigned to key assumptions is based on the average gross margin achieved in the period immediately before the budget period and increased to expected efficiencies. The value assigned reflects past experience and efficiency improvements.

Capital expenditure: The basis for determining value(s) assigned to key assumptions is based on the total capital expenditure achieved in the period immediately before the budget period and adjusted for expected network coverage roll out. The value assigned is based on management's expected network coverage roll out.

Applicable to all cash-generating units except for the Africa Online cash-generating units

ARPU: The basis for determining value(s) assigned to key assumptions is based on past experience and expected growth which is based on market forces and external sources of information.

Applicable to all non South African cash-generating units

Exchange rates: The basis for determining value(s) assigned to key assumptions is based on the average market forward exchange rate over the budget period in respect of the ZAR/USD. The value assigned to the key assumption is consistent with external sources of information.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management

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

The Group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments for example trade receivables and payables arise directly from the Group's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts. The Group does not speculate in derivative instruments.

The table below sets out the Group's classification of financial assets and liabilities

		At fair value through profit or loss held for trading	Financial liabilities at amortised cost	Held-to- maturity	Available- for-sale	Loans and receivables	Total carrying value	Fair value
	Notes	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2008								
Classes of financial instruments per Balance Sheet								
Assets		1,991	–	372	55	9,783	12,201	12,201
Investments	13	1,377	–	–	55	67	1,499	1,499
Trade and other receivables*	18	–	–	–	–	8,582	8,582	8,582
Other financial assets	19	614	–	–	–	–	614	614
Interest rate swaps	19	9	–	–	–	–	9	9
Other financial assets	19	16	–	–	–	16	16	16
Forward exchange contracts	19	589	–	–	–	–	589	589
Finance lease receivables	15	–	–	372	–	–	372	372
Cash and cash equivalents	20	–	–	–	–	1,134	1,134	1,134
Liabilities		(1,290)	(25,846)	–	–	–	(27,136)	(27,672)
Interest-bearing debt	27	–	(15,733)	–	–	–	(15,733)	(16,296)
Trade and other payables	30	–	(8,771)	–	–	–	(8,771)	(8,771)
Other financial liabilities	19	(1,290)	–	–	–	–	(1,290)	(1,290)
Put option (Multi-Links)	19	(919)	–	–	–	–	(919)	(919)
Put option (Vodacom DRC)	19	(198)	–	–	–	–	(198)	(198)
Forward exchange contracts	19	(173)	–	–	–	–	(173)	(173)
Credit facilities utilised	20	–	(1,342)	–	–	–	(1,342)	(1,342)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

		At fair value through profit or loss	Financial liabilities at amortised cost	Held-to- maturity	Available- for-sale	Loans and receivables	Total carrying value	Fair value
	Notes	Rm	Rm	Rm	Rm	Rm	Rm	Rm

12. Financial instruments and

risk management (continued)

2007

Classes of financial instruments
per Balance Sheet

Assets		1,608	–	246	47	7,861	9,762	9,762
Investments	13	1,349	–	–	47	65	1,461	1,461
Trade and other receivables*	18					7,047	7,047	7,047
Other financial assets	19	259	–	–	–	–	259	259
Bills of exchange	19	98	–	–	–	–	98	98
Interest rate swaps	19	16	–	–	–	–	16	16
Forward exchange contracts	19	145	–	–	–	–	145	145
Finance lease receivables	15	–	–	246	–	–	246	246
Cash and cash equivalents	20					749	749	749
Liabilities		(327)	(17,944)	–	–	–	(18,271)	(19,661)
Interest-bearing debt	27	(98)	(10,266)	–	–	–	(10,364)	(11,754)
Trade and other payables	30	–	(7,237)	–	–	–	(7,237)	(7,237)
Other financial liabilities	19	(229)	–	–	–	–	(229)	(229)
Put option (Vodacom DRC)	19	(125)	–	–	–	–	(125)	(125)
Other financial liabilities	19	(36)	–	–	–	–	(36)	(36)
Forward exchange contracts	19	(42)	–	–	–	–	(42)	(42)
Interest rate swaps	19	(26)	–	–	–	–	(26)	(26)
Credit facilities utilised	20	–	(441)	–	–	–	(441)	(441)

2006

Classes of financial instruments
per Balance Sheet

Assets		3,149	–	–	–	11,269	14,418	14,418
Investments	13	2,874	–	–	–	89	2,963	2,963
Trade and other receivables*	18	–	–	–	–	6,232	6,232	6,232
Other financial assets	19	275	–	–	–	–	275	275
Bills of exchange	19	107	–	–	–	–	107	107
Interest rate swaps	19	19	–	–	–	–	19	19
Forward exchange contracts	19	149	–	–	–	–	149	149
Cash and cash equivalents	20	–	–	–	–	4,948	4,948	4,948
Liabilities		(343)	(17,811)	–	–	–	(18,154)	(20,180)
Interest-bearing debt	27	(108)	(11,015)	–	–	–	(11,123)	(13,149)
Trade and other payables	30	–	(6,103)	–	–	–	(6,103)	(6,103)
Other financial liabilities	19	(235)	–	–	–	–	(235)	(235)
Forward exchange contracts	19	(130)	–	–	–	–	(130)	(130)
Interest rate swaps	19	(105)	–	–	–	–	(105)	(105)
Credit facilities utilised	20	–	(693)	–	–	–	(693)	(693)

* Trade and other receivables are disclosed net of prepayments of R404 million (2007: R256 million; 2006: R167 million).

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.1 Fair value of financial instruments

Fair value of all financial instruments noted in the balance sheet approximates carrying value except as disclosed below.

The estimated net fair values as at March 31, 2008, 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.

Derivates are recognised at fair value. The fair value of derivatives approximate their carrying amounts.

The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

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.

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

12.2 Interest rate risk management

Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as incremental funding or new borrowings and the refinancing of existing borrowings.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings and anticipated peak additional borrowings, the Group makes use of interest rate derivatives as approved in terms of the Group policy limits. Fixed rate debt represents approximately 51.88% (2007: 90.37%; 2006: 92.04%) of the total debt. There were no material changes in the policies and processes for managing and measuring interest rate risk in the 2008 financial year.

The table below summarises the interest rate swaps outstanding as at March 31:

	Average maturity	Currency	Notional amount Rm	Weighted average coupon rate
2008				
Interest rate swaps outstanding				
Receive fixed	<1 year	ZAR	27	13.62%
	1-5 years	ZAR	58	13.30%
	>5 years	ZAR	—	—
2007				
Interest rate swaps outstanding				
Pay fixed	< 1 year	ZAR	1,000	14.67%
Receive fixed	1-5 years	ZAR	38	11.45%
	>5 years	ZAR	61	11.44%
2006				
Interest rate swaps outstanding				
Pay fixed	< 1 year	ZAR	1,000	14.67%
Receive fixed	1-5 years	ZAR	47	9.15%
	>5 years	ZAR	62	9.43%
Pay fixed				

The floating rate is based on the three month JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

Receive fixed

The Group swapped its fixed rate for a floating rate linked to the BA (Banker's Acceptance) rate plus a margin of between 2% and 2.25%.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.3 Credit risk management

Credit risk arises from derivative contracts entered into with financial institutions with a range of A1 or better. The Group is not exposed to significant concentrations of credit risk. Credit limits are set on an individual basis. The maximum exposure to the Group from counterparties is a net favourable position of R438 million (2007: R144 million; 2006: R158 million). No collateral is required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. The Group limits the exposure to any counterparty and exposures are monitored daily. The Group expects that all counterparties will meet their obligations.

With respect to credit risk arising from other financial assets of the Group, which comprises held-to-maturity investments, financial assets held at fair value through profit or loss, loans and receivables and available-for-sale assets, the Group's exposure to credit risk arises from a potential default by counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management seeks to reduce the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counter party failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than prepaid customers, on application for new services on an ongoing basis where appropriate.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows.

The Group has provided a financial guarantee to Africa Online Limited for bank loans. At March 31, 2008 there was R23 million (2007: RNil) outstanding. For Vodacom's exposure to guarantees refer to note 36.

Telkom guarantees a certain portion of employees's housing loans. The amount guaranteed differs depending on facts such as employment period and salary rates. When an employee leaves the employment of Telkom, any housing debt guaranteed by Telkom is settled before any pension payout can be made to the employee. There is no provision outstanding in respect of these contingencies. The fair value of the guarantee at March 31, 2008 was RNil (2007: RNil; 2006: RNil).

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2008 financial year.

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	2006 Rm	Carrying 2007 Rm	amount 2008 Rm
Business and residential	1,955	1,924	1,824
Global, corporate and wholesale	1,381	1,643	1,875
Government	369	318	368
Other customers	35	41	334
Fixed-line	3,740	3,926	4,401
Mobile	1,834	2,299	2,880
Other	514	567	704
Impairment of trade receivables	(290)	(235)	(290)
Subtotal for trade receivables	5,798	6,557	7,695
Other receivables*	434	490	887
Investments and loans receivable	2,963	1,461	1,499
Other financial assets	275	259	614
	9,470	8,767	10,695
The ageing of trade receivables at the reporting date was:			
Not past due/current	5,342	5,829	6,840
Ageing of past due but not impaired			
21 to 60 days	217	331	384
61 to 90 days	42	80	110
91 to 120 days	24	59	71
120+ days	173	258	290
	5,798	6,557	7,695

* Other receivables are disclosed net of prepayments of R404 million (2007: R256 million; 2006: R167 million)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

12. Financial instruments and risk management (continued)

12.3 Credit risk management (continued)

The ageing in the allowance for the impairment of trade receivables at reporting date was:

Fixed-line and Other			
Current defaulted trade	25	24	53
21 to 60 days	43	21	25
61 to 90 days	23	19	31
91 to 120 days	19	15	19
120+ days	138	118	121
	248	197	249
Mobile	42	38	41
	290	235	290

The average credit period for March 2008, 2007 and 2006 on sales of goods and services is between 30 and 60 days from date of invoice for the South African operations and between 20 and 75 days from the date of invoice for the non-South African operations. Generally no interest is charged on trade receivables. Mobile operations have provided fully for all receivables over 120 days due for their South African operations and 90 days due for their non-South African operations because historical experience is such that receivables that are due beyond these days are generally not recoverable. Trade receivables of the South African operations due between 60 and 120 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 18.

Included in the allowance for doubtful debts, for fixed-line are individually impaired receivables with a balance of R32 million (2007: R49 million; 2006: R55 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances except for Mobile which holds collateral for financial assets past due but not impaired to the value of R1,086 million (2007: R796 million; 2006: R433 million) (Group share: R543 million; 2007: R398 million; 2006: R217 million).

12.4 Liquidity risk management

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 trade receivable related to cash flows as well as capital commitments of the Group. Liquidity risk is managed by the Group's various Corporate Finance divisions in accordance with policies and guidelines formulated by the Group's Executive Committees. In terms of its borrowing requirements the Group ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Group maintains a reasonable balance between the period over which assets generate funds and the period over which the respective assets are funded. Short-term liquidity gaps may be funded through repurchase agreements and commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2008 financial year.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.4 Liquidity risk management (continued)

The table below analyses the Group's financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

	Note	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
2008							
Non-derivative financial liabilities							
Finance lease liabilities*	27	1,167	2,198	165	294	589	1,150
Interest -bearing debt (excluding finance leases)	27	14,566	16,672	6,350	4,835	2,733	2,754
Trade and other payables	30	8,771	8,771	8,771	–	–	–
Bank borrowings	20	1,342	1,342	1,342	–	–	–
Derivative financial liabilities							
Put option (Multi-Links)	19	919	919	–	919	–	–
Put option (Vodacom DRC)	19	198	198	198	–	–	–
Forward exchange contracts	19	173	173	173	–	–	–
		27,136	30,273	16,999	6,048	3,322	3,904
2007							
Non-derivative financial liabilities							
Finance lease liabilities*	27	1,220	2,424	231	276	585	1,332
Interest -bearing debt (excluding finance leases)	27	9,144	11,329	6,133	1	2,551	2,644
Trade and other payables	30	7,237	7,237	7,237	–	–	–
Bank borrowings	20	441	441	441	–	–	–
Derivative financial liabilities							
Put option (Vodacom DRC)	19	125	125	125	–	–	–
Interest rate swaps	19	26	26	26	–	–	–
Forward exchange contracts	19	42	42	42	–	–	–
Other financial liability	19	36	36	36	–	–	–
		18,271	21,660	14,271	277	3,136	3,976
2006							
Non-derivative financial liabilities							
Finance lease liabilities*	27	1,272	2,644	217	236	672	1,519
Interest -bearing debt (excluding finance leases)	27	9,851	12,415	3,425	4,581	1,792	2,617
Trade and other payables	30	6,103	6,103	6,103	–	–	–
Bank borrowings	20	693	693	693	–	–	–
Derivative financial liabilities							
Forward exchange contracts	19	130	130	130	–	–	–
Interest rate swaps	19	105	105	–	105	–	–
		18,154	22,090	10,568	4,922	2,464	4,136

*For details on minimum lease payments refer to note 37

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.4 Liquidity risk management continued)

Put and call options

In terms of various shareholders' agreements, put and call options exist for the acquisition of shares in the following companies:

Call options	Period
VM, S.A.R.L call option	Four years from August 23, 2003. Replaced with a new option for a period of 5 years after April 1, 2007.
The Somnium Family Trust	The Trust granted Vodacom Ventures (Proprietary) Limited a call option to purchase such number of shares in Gogga Tracking Solutions (Proprietary) Limited from the Trust totalling 23% of the issued share capital of the company on the date upon which the option is exercised. The option will lapse after 36 months following the month in which the triggering events, as stipulated in the option agreement, occurs. The option price is specified in the option agreement.
WBS Holdings (Proprietary) Limited	Until February 27, 2009, subject to fulfilment of conditions, which will result in the Group holding and beneficially owning in aggregate 25.5% of the total issued ordinary share capital.
G-Mobile Holdings Limited	Irrevocable call option to subscribe for such number of further shares as specified in the agreement. The option was exercised on September 20, 2007.

Put Options

Multi-Links Telecommunications Limited	The minorities have been granted a put option that requires Telkom to purchase all of the minorities' shares. The put option is exercisable within 90 days of the second anniversary of signing of the sale agreement, being May 1, 2009. A liability of R919 million has been recognised in this regard and is included in other non-current financial liabilities. R661 million was initially recognised in equity and R258 million subsequent re-measurement through finance charges and fair value movements.
Smartphone SP (Proprietary) Limited	This put option was cancelled with the acquisition of the minorities of Smartphone SP (Proprietary) Limited.
Smartcom (Proprietary) Limited	This put option was cancelled with the acquisition of the minorities of Smartcom (Proprietary) Limited.
Congolese Wireless Network s.p.r.l.	Maximum 8 years after December 1, 2001. The option liability had a value of R397 million (2007: R249 million; 2006: RNil) (Group share: R198 million; 2007: R125 million; 2006: RNil) as at March 31, 2008.

Except as separately disclosed, none of the above put and call options have any value at any of the periods presented.

12.5 Insurance risk management

Vodacom is exposed to insurance risk as a result of its asset base as well as its customer commitments. In terms of its insurance risk profile the company ensures that there is adequate insurance cover through the utilisation of a special purpose insurance vehicle.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.6 Foreign currency exchange rate risk management

The Group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

Forward exchange contracts have been entered into to reduce the foreign currency exposure on the Group's operations and liabilities. The Group also enters into forward foreign exchange contracts to economically hedge interest expense and purchase and sale commitments denominated in foreign currencies (primarily United States Dollars and Euros). The purpose of the Group's foreign currency hedging activities is to protect the Group from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

There were no material changes in the exposure to foreign currency exchange rate risk and its objectives, policies and processes for managing and measuring the risk during the 2008 financial year.

The following table details the foreign exchange forward contracts outstanding at year end:

To buy	Foreign contract value m	Forward value Rm	Fair value Rm
2008			
Currency			
USD	139	1,042	109
Euro	252	2,826	444
Pound Sterling	19	281	30
Other	31	32	6
		4,181	
2007			
Currency			
USD	181	1,329	(1)
Euro	196	1,899	23
Pound Sterling	19	261	6
Other	66	49	(1)
		3,538	
2006			
Currency			
USD	178	1,157	(51)
Euro	156	1,235	(46)
Pound Sterling	28	321	(21)
Other	89	48	(1)
		2,761	

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

To sell	Foreign contract value m	Forward value Rm	Fair value Rm
12. Financial instruments and risk management (continued)			
12.6 Foreign currency exchange rate risk management (continued)			
2008			
Currency			
USD	78	596	(68)
Euro	73	848	(103)
Pound Sterling	5	89	(1)
Other	17	22	(1)
		1,555	
2007			
Currency			
USD	122	994	88
Euro	52	505	(5)
Pound Sterling	4	51	(1)
Other	29	17	–
		1,567	
2006			
Currency			
USD	128	954	140
Euro	41	309	(3)
Pound Sterling	5	56	2
Other	54	23	–
		1,342	

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.6 Foreign currency exchange rate risk management (continued)

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different foreign currencies.

	South African Rand Rm	Euro Rm	Pound Sterling Rm	United States Dollar Rm	Other Rm
2008					
Net foreign currency monetary assets/(liabilities)					
Functional currency of company operation					
ZAR	–	481	(133)	224	(13)
USD	–	8	–	–	(17)
Naira	–	–	–	(446)	–
2007					
Net foreign currency monetary assets/(liabilities)					
Functional currency of company operation					
ZAR	–	475	(166)	159	32
USD	26	(25)	–	–	(17)
2006					
Net foreign currency monetary assets/(liabilities)					
Functional currency of company operation					
ZAR	–	376	(165)	42	99
USD	(28)	(13)	–	–	13

Currency swaps

There were no currency swaps in place at March 31, 2008, 2007 and 2006.

12.7 Sensitivity analysis

Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and other financial liabilities at the balance sheet date. A 100 basis point increase or decrease is used when reporting interest rate risk and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, Telkom's profit for the year ended March 31, 2008 would decrease/increase by R3 million (2007: decrease/increase by RNil; 2006: decrease/increase by R9 million). This is attributable to the fixed-line's segment exposure to interest rates on its derivative and floating rate debt portfolio.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.7 Sensitivity analysis (continued)

Interest rate risk (continued)

The table below illustrates Mobile's sensitivity (Group share) to a 100 basis point increase/decrease in the interest rate.

	2006	2007	2008
RSA prime rates, JIBAR rates, Money market rates, and RSA BA rates			
Basis points increase	100	100	100
Profit/(loss) before tax (Rm)	37	24	(12)
LIBOR			
Basis points increase	100	100	100
Profit/(loss) before tax (Rm)	0	0	(5)
EURIBOR			
Basis points increase	100	100	100
Profit/(loss) before tax (Rm)	0	0	1
Lesotho prime rates			
Basis points increase	100	100	100
Profit/(loss) before tax (Rm)	0	0	1

Foreign exchange currency risk

The following table illustrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, to the Group's profit before tax (excluding the Mobile segment).

	Increase/decrease in foreign exchange currency %	Effect on profit before tax increase/(decrease) Rm
2008		
Rand appreciates		
USD	+10	(25)
EURO	+10	(42)
Rand depreciates		
USD	-10	25
EURO	-10	42
2007		
Rand appreciates		
USD	+10	(18)
EURO	+10	(27)
Rand depreciates		
USD	-10	18
EURO	-10	27
2006		
Rand appreciates		
USD	+10	(11)
EURO	+10	(17)
Rand depreciates		
USD	-10	11
EURO	-10	17

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

12. Financial instruments and risk management (continued)

12.7 Sensitivity analysis (continued)

Foreign exchange currency risk (continued)

The following table details Mobile's sensitivity to the below-mentioned percentage strengthening and weakening in the functional currency against the relevant foreign currencies.

A positive number indicates an increase in profit before taxation where the functional currency is expected to strengthen against the relevant currency in a net financial liability position. A negative number indicates a decrease in profit before taxation where the functional currency is expected to strengthen against the relevant currency in a net financial asset position.

The Group is exposed to 50% of the following:

	South African Rand %	Euro %	Pound Sterling %	United States Dollar %
2008				
South African Rands	—	7.6	6.5	9.5
United States Dollar	9.5	5.1	2.6	—
Tanzanian Shilling	11	7.5	5	2.5
Mozambican Meticals	0.1	3.8	6.5	9.4
Profit before tax (Rm)	2	(54.4)	(1.0)	(7.7)
2007				
South African Rands	—	31.9	13.1	11.5
United States Dollar	11.5	18.3	1.4	—
Tanzanian Shilling	11	17.4	0.6	0.8
Mozambican Meticals	17.7	8.6	6.9	8.2
Profit before tax (Rm)	6.3	(36.8)	(2.6)	2.1
2006				
South African Rands	—	29.3	32.5	17.7
United States Dollar	17.7	9.8	12.5	—
Tanzanian Shilling	13.7	11.5	14.3	1.5
Mozambican Meticals	17	7.4	10	2.2
Profit before tax (Rm)	3.2	(16.9)	(38.3)	4.1

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

12. Financial instruments and risk management (continued)

12.7 Sensitivity analysis (continued)

Exchange rate table (closing rate)

USD	6.180	7.248	8.132
Euro	7.482	9.649	12.854
Pound Sterling	10.737	14.189	16.166
Swedish Krona	0.793	1.033	1.370
Japanese Yen	0.052	0.061	0.082

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors capital using net debt to equity ratio. Telkom's policy is to keep the net debt to equity ratio between 50% and 70%. Vodacom's strategy is to maintain a net debt to adjusted equity ratio of below 150%. Included in net debt are interest bearing loans and borrowings, credit facilities and other financial liabilities, less cash and cash equivalents and other financial assets.

Telkom plans on continuing its share buy back strategy based on certain criteria, including market conditions, availability of cash and other investments opportunities and needs.

All of Telkom's issued and outstanding ordinary shares, including the class A ordinary share and the class B ordinary share, rank equal for dividends. No dividend may be declared to a holder of the class A ordinary share or class B ordinary share, unless the same dividend is declared to holders of all ordinary shares. Telkom's current dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable us to achieve our strategy. Telkom may revise its dividend policy from time to time. The determination to pay dividends, and the amount of the dividends, will depend upon, among other things the earnings, financial position, capital requirements, general business conditions, cash flows, net debt levels and share buy back plans.

The Group has access to financing facilities, the total unused amount which is R7,565 million at the balance sheet date. Capital comprises equity attributable to equity holders of Telkom.

There were no changes in the Group's approach to capital management during the year.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements.

The net debt to equity ratio at year end was as follows:

	2006	2007	2008
	Rm	Rm	Rm
Non-current portion of interest-bearing debt	7,655	4,338	9,403
Current portion of interest -bearing debt	3,468	6,026	6,330
Credit facilities utilised	693	441	1,342
Non-current portion of other financial liabilities		36	919
Current portion of other financial liabilities	235	193	371
Less: Cash and cash equivalents	(4,948)	(749)	(1,134)
Less: Other financial assets	(275)	(259)	(614)
Net debt	6,828	10,026	16,617
Equity attributable to equity holders of Telkom	29,165	31,724	32,815
Net debt to equity ratio	23.4%	31.6%	50.6%

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
13. Investments	2,894	1,384	1,448
Available-for-sale	–	47	55
Unlisted investments			
Rascom	–	–	–
0.69% (2007: 0.69%, 2006: 0.70%) interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.			
Cost	1	1	1
Impairment	(1)	(1)	(1)
The fair value of this unlisted investment cannot be practicably determined. The directors' valuation is based on the Group's interest in the entity's net asset value converted at year-end exchange rates. The directors' valuation of the above unlisted investment is RNil (2007: RNil; 2006: RNil).			
WBS Holdings (Proprietary) Limited	–	40	23
2,500 ordinary shares at R0.01 each			
The directors' valuation of this unlisted investment is not materially different from the carrying amount as it is recognised at fair value. The investee company also granted the Group an option to subscribe for additional shares (refer to note 12) from the 10% currently held up to an aggregate of 25.5%.			
Other investments	–	7	32
The Group purchased a 10% equity stake in G-Mobile Holdings Limited and a 25.93% equity stake in Gogga Tracking Solutions (Proprietary) Limited. The investee companies also granted the Group an option to increase the investments (refer to note 27). During 2008 the Group purchased a 50% equity stake in Waterberg Lodge (Proprietary) Limited, a 35% equity stake in X-Link Communications (Proprietary) Limited and increased its interest in G-Mobile Holdings Limited from 10% to 26% by exercising the call option granted in 2007.			
Loans and receivables	89	65	67
Mirambo Limited	–	–	60
Mirambo Limited bought the 16% and 19% equity stake of Planetel Communications Limited and Caspian Limited respectively in Vodacom Tanzania Limited on November 30, 2007. The shareholder loans with a combined nominal value of USD14.9 million, were transferred to Mirambo Limited in order to meet its obligations to Vodacom Tanzania Limited in respect of shareholder contributions. The loan bears interest at LIBOR plus 5% and shall be repaid from any cash distributions by Vodacom Tanzania Limited to Mirambo Limited. The loan and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over the shares of Vodacom Tanzania Limited.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
13. Investments (continued)			
Loans and receivables (continued)			
Planetel Communications Limited	21	25	—
The loan with a nominal value of USD7 million (Group share: USD3,5 million) issued during the 2003 year, bore interest at LIBOR plus 5%. Planetel Communications Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest were collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period, which expired at the end of the current financial year (refer to note 27). On November 30, 2007, Planetel Communications sold its 16% shareholding in Vodacom Tanzania Limited to Mirambo Limited.			
Caspian Limited	25	29	—
The loan with a nominal value of USD8 million (Group share: USD4 million) issued during the 2003 year, bore interest at LIBOR plus 5%. Caspian Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest were collateralised by cession over all shareholder distributions and a pledge over the shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period, which expired at the end of the current financial year (refer to note 27). On November 30, 2007, Caspian sold its 19% shareholding in Vodacom Tanzania Limited to Mirambo Limited.			
Number Portability Company (Proprietary) Limited	—	3	3
The shareholder loan made to Number Portability Company (Proprietary) Limited ('NPC') for an amount of R6 million (Group share: R3 million) at March 2007, is subordinated and ranks behind the claims of all creditors of NPC for repayment until such time as the assets of NPC fairly valued exceed its liabilities and in such case, the loan shall cease to be subordinated to the extent that the assets of NPC exceed its liabilities from time to time. The shareholder loan bears no interest and has no fixed repayment terms.			
Sekha-Metsi Investment Consortium Limited	—	8	—
The loan was advanced to Sekha-Metsi Investment Consortium Limited and bore interest at South African overdraft interest rates plus a margin of 2%. Interest was payable monthly in arrears. The loan was repayable on demand, should Sekha-Metsi Investment Consortium Limited be able to obtain a loan externally. Sekha-Metsi Investment Consortium Limited pledged their shares in Sekha-Metsi Enterprises (Proprietary) Limited as security for the loan. During the current financial year the loan was repaid.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
13. Investments (continued)			
Loans and receivables (continued)			
Empresa Moçambicana de Telecomunicações S.A.R.L. ('Emotel')	–	–	4
The loan with a nominal value of USD0.9 million issued during the 2008 financial year bears interest at LIBOR plus 2%. Interest is capitalised on a monthly basis. The loan and capitalised interest are repayable upon the expiry of 5 years following the advance date, being March 31, 2012. Emotel utilised this loan to meet its obligations to V.M. S.A.R.L. in respect of its 2% shareholding in V.M. S.A.R.L. The loan and capitalised interest are collateralised by cession over all cash distributions and a pledge over their shares in V.M. S.A.R.L.			
Tel.One (Pvt) Limited	32	–	–
The loan to Tel.One (Pvt) Limited was unsecured, interest-free and was repayable through traffic revenue from June 2004 over 5 years. R41 million traffic was set off against the loan in the 2007 financial year, hence settling the full amount of the loan in advance.			
Other receivables	11	–	–
Held for trading	2,874	1,349	1,377
Linked insurance policies – Coronation	1,182	1,280	1,291
Linked insurance policies – Investec	24	–	–
Ordinary shares – listed	1,059	–	–
Cash	229	–	–
Other money market investments	284	69	51
Government stock	44	–	–
Other unlisted investments	52	–	35
Less: Short-term investments	(69)	(77)	(51)
Tel.One (Pvt) Limited	(13)	–	–
Sekha-Metsi Investment Consortium Limited	–	(8)	–
WBS Holdings (Proprietary) Limited (included in Other unlisted investments)	–	–	(13)
Other money market investments	(56)	(69)	(38)

Included in held for trading investments is R1,290 million (2007: R1,279 million, 2006: R2,819 million) that will be used to fund the post-retirement medical aid liability. These investments are made through a cell captive, in which Telkom holds 100% of the preference shares of the cell captive, and represent the fair value of the underlying investments of the cell captive. The initial cost of the investment amounts to R535 million (2007: R535 million; 2006: R1,891 million). Telkom bears all the risks and rewards of the investment, as the returns/losses on the preference shares are dependant on the performance of the underlying investments made by the cell captive. On this basis Telkom as the preference shareholder, receives any residual gains or losses made by the cell captive. The ordinary shareholders of the cell captive do not bear any of the risks and rewards. The cell captive has been consolidated in full.

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The cell captive has an investment in a sinking fund and an annuity policy. In the financial year ended March 31, 2007 an addendum to the cell captive annuity policy was signed, which resulted in the annuity policy qualifying as a plan asset. This resulted in a reduction in the investment of R1,961 million in the financial year ended March 31, 2007 (refer to note 29).

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

14. Deferred revenue and Deferred expenses

Deferred expenses 480 557 583

Deferred expenses 254 270 221

Current portion of deferred expenses 226 287 362

Included in long-term deferred expenses and revenue is Vodacom unactivated starter packs.

The current portion of deferred expenses represents the deferral of connection costs.

Deferred revenue 2,966 3,004 3,721

Deferred revenue 991 1,021 1,128

Current portion of deferred revenue 1,975 1,983 2,593

Included in deferred revenue is profit on the sale and lease-back of certain Telkom buildings of R118 million, consisting of a long-term portion of R107 million and a short-term portion of R11 million (2007: R129 million; 2006: R140 million). A profit of R11 million per annum is recognised in income on a straight-line basis, over the period of the lease ending 2019 (refer to note 37).

15. Finance lease receivables

	Total	< 1 year	1 – 5 years	> 5 years
	Rm	Rm	Rm	Rm

The Group provides voice and non-voice services to its customers, which make use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to certain customer arrangements which were assessed to be finance leases in terms of IAS17.

2008

Minimum lease payments

Lease payments receivable 452 196 256 –

Unearned finance income (80) (30) (50) –

Present value of minimum lease payments 372 166 206 –

Lease receivables 372 166 206 –

2007

Minimum lease payments

Lease payments receivable 312 110 202 –

Unearned finance income (66) (22) (44) –

Present value of minimum lease payments 246 88 158 –

Lease receivables 246 88 158 –

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
16. Deferred taxation	(587)	(1,123)	(1,374)
Opening balance	(435)	(587)	(1,123)
Income statement movements	(173)	(516)	(219)
Temporary differences	(280)	(515)	(331)
Over provision/(under provision) prior year	107	(1)	53
Change in tax rate	–	–	59
Business combinations	21	(16)	(65)
Foreign currency translation reserve and foreign equity revaluation	–	(4)	33
The balance comprises:	(587)	(1,123)	(1,374)
Capital allowances	(2,682)	(3,325)	(3,841)
Provisions and other allowances	1,682	1,719	2,008
Tax losses	112	113	276
STC tax credits	301	370	183
Deferred tax balance is made up as follows:	(587)	(1,123)	(1,374)
Deferred tax assets	481	593	605
Deferred tax liabilities	(1,068)	(1,716)	(1,979)
Unutilised STC credits	2,393	2,958	1,830

Under South African tax legislation, tax losses for companies continuing to do business do not expire. The unused taxation losses available to reduce the net deferred taxation liability is R1,615 million of which R1,456 relates to Vodacom (2007: R1,134 million; 2006: R876 million) (Group share: R728 million; 2007: R567 million; 2006: R438 million). The full effect of this would be a R511 million of which R466 million relates to Vodacom (2007: R363 million; 2006: R279 million) (Group share: R233 million; 2007: R182 million; 2006: R140 million) reduction in the net deferred taxation liability.

The deferred tax asset represents amongst other items STC credits on past dividends received. The deferred tax asset for the current period is calculated using the revised STC rate of 10% (previously 12,5%) as announced by the Minister of Finance. The deferred tax asset is recognised as it is considered probable that it will be utilised in the future, given Telkom's dividend policy. The asset will be released as a tax expense when dividends are declared.

The deferred tax liability increased mainly due to the increase in the difference between the carrying value and tax base of assets, resulting from the change in the estimate of useful lives of the assets as well as from the acquisition of Multi-Links Telecommunications (Proprietary) Limited.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
17. Inventories	814	1,093	1,287
Gross inventories	916	1,275	1,535
Write-down of inventories to net realisable value	(102)	(182)	(248)
Inventories consist of the following categories:	814	1,093	1,287
Installation material, maintenance material and network equipment	487	811	895
Merchandise	327	282	392
Write-down of inventories to net realisable value	102	182	248
Opening balance	67	102	182
Charged to selling, general and administrative expenses	64	154	164
Inventories written-off	(29)	(74)	(98)

Inventory levels as at March 31, 2008 and 2007 have increased due to the roll-out of the Next Generation Network and increased inventory levels, required to improve customer service.

The increase in merchandise in the current year is due to the accelerated acquisition of merchandise to limit the Group's exposure to foreign currency fluctuations.

18. Trade and other receivables	6,399	7,303	8,986
Trade receivables	5,798	6,557	7,695
Gross trade receivables	6,088	6,792	7,985
Impairment of receivables	(290)	(235)	(290)
Prepayments and other receivables	601	746	1,291
Impairment of receivables	290	235	290
Opening balance	285	290	235
Charged to selling, general and administrative expenses	206	153	300
Receivables written-off	(201)	(208)	(245)

Refer to note 12 for detailed credit risk analysis.

The increase in the charged to selling, general and administrative expenses is as a result of increased revenues which resulted in a higher provision for doubtful debts.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

19. Other financial assets and liabilities

Other financial assets consist of:

At fair value through profit or loss

	275	259	614
Bills of exchange	107	98	–
Interest rate swaps	19	16	9
Other financial assets	–	–	16
Forward exchange contracts	149	145	589

Bills of exchange

The fair value of bills of exchange has been derived at with reference to BESA quoted prices.

Other financial liabilities consist of:

	(235)	(229)	(1,290)
Long-term portion of other financial liabilities			
Other (refer to note 12)	–	(36)	–
Put option at fair value through profit or loss (refer to note 12)	–	–	(919)
Current portion of other financial liabilities			
At fair value through profit or loss	(235)	(193)	(371)
Put option at fair value through profit or loss (refer to note 12)	–	(125)	(198)
Forward exchange contracts	(130)	(42)	(173)
Interest rate swaps	(105)	(26)	–

Change in comparative

Derivative instruments in other financial liabilities category increased by R125 million in 2007 (2006: RNil) due to the reclassification of the Vodacom DRC put option from trade and other payables.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
20. Net cash and cash equivalents	4,255	308	(208)
Cash shown as current assets	4,948	749	1,134
Cash and bank balances	1,853	649	664
Short-term deposits	3,095	100	470
Credit facilities utilised	(693)	(441)	(1,342)
Undrawn borrowing facilities	9,519	8,658	7,565

The undrawn borrowing facilities are unsecured, when drawn bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity. At March 31, 2008, R2,000 million of these undrawn facilities were committed.

Borrowing powers

To borrow money, Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants of the TL20 loan and the conditions, and covenants of the Bridge Loan facility indicated on note 27.

21. Share capital and premium

Authorised and issued share capital and share premium are made up as follows:

Authorised	10,000	10,000	10,000
999,999,998 ordinary shares of R10 each	10,000	10,000	10,000
1 Class A ordinary share of R10	—	—	—
1 Class B ordinary share of R10	—	—	—
Issued and fully paid	6,791	5,329	5,208
520,784,184 (2007: 532,855,528; 2006: 544,944,899) ordinary shares of R10 each	5,449	5,329	5,208
1 (2007: 1; 2006: 1) Class A ordinary share of R10	—	—	—
1 (2007: 1; 2006: 1) Class B ordinary share of R10	—	—	—
Share premium	1,342	—	—

The following table illustrates the movement in the number of shares issued:

	Number of shares	Number of shares	Number of shares
Shares in issue at beginning of year	557,031,821	544,944,901	532,855,530
Shares bought back and cancelled*	(12,086,920)	(12,089,371)	(12,071,344)
Shares in issue at end of year	544,944,901	532,855,530	520,784,186

Full details of the voting rights of ordinary, class A and class B shares are documented in the Articles of Association of Telkom.

* As of March 31, 2008, 4,444,138 of these shares had not yet been cancelled from the issued share capital by the Registrar of Companies.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

21. Share capital and premium (continued)

Share buy-back

During the financial year Telkom bought back 12,071,344 ordinary shares at a total consideration of R1,647 million. This reduced Share capital by R121 million and Retained earnings by R1,526 million.

During the financial year ended March 31, 2007, Telkom bought back 12,089,371 ordinary shares at a total consideration of R1,596 million. This reduced Share capital by R120 million, Share premium by R1,342 million and Retained earnings by R134 million.

During the financial year ended March 31, 2006, Telkom bought back 12,086,920 ordinary shares at a total consideration of R1,502 million. This reduced the Share capital by R121 million and Share premium by R1,381 million.

Capital Management

Refer to note 12 for a detailed capital management disclosure.

22. Treasury shares (1,809) (1,774) (1,638)

At March 31, 2008, 10,493,141 (2007: 12,237,016; 2006: 12,687,521) and 10,849,058 (2007: 10,849,058; 2006: 10,849,058) ordinary shares in Telkom, with a fair value of R1,377 million (2007: R2,031 million; 2006: R2,038 million) and R1,423 million (2007: R1,801 million; 2006: R1,743 million) are held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, respectively.

The shares held by Rossal No 65 (Proprietary) Limited are reserved for issue in terms of the Telkom Conditional Share Plan ('TCSP'). In addition, the Board of directors agreed that, subject to the JSE Listing requirements, the treasury shares held by Acajou Investments (Proprietary) Limited be made available to the TCSP to make up for the current shortfall in the share scheme after the additional grants made in the current year (refer to note 23).

The reduction in the number of treasury shares is due to 1,743,785 shares (2007: 450,505; 2006: 29,669) shares that vested in terms of the TCSP during the year.

The fair value of these shares at the date of vesting was R301 million (2007: R63 million; 2006: R4 million).

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

23. Share-based compensation reserve

This reserve represents the cumulative fair value of the equity-settled share-based payment transactions recognised in employee expenses over the vesting period of the equity instruments granted to employees in terms of the Telkom Conditional Share Plan (refer to note 29).

The Telkom Board approved the fourth enhanced allocation of shares to employees on September 4, 2007, with a grant date of September 27, 2007, the day that the employees and Telkom shared a common understanding of the terms and conditions of this grant. A total of 6,089,810 shares were granted.

The Board has also approved an enhanced allocation for the November 2006 grant on September 4, 2007, with a grant date of September 27, 2007. The number of additional shares granted with respect to the 2006 allocation is 4,966,860.

No consideration is payable on the shares issued to employees, but performance criteria will have to be met in order for the granted shares to vest. The ultimate number of shares that will vest may differ based on certain individual and Telkom performance conditions being met. The related compensation expense is recognised over the vesting period of shares granted, commencing on the grant date.

The following table illustrates the movement within the Share-based compensation reserve:

Balance at beginning of year	68	151	257
Net increase in equity	83	106	386
Employee cost*	120	141	522
Accelerated vesting of shares	(37)	–	–
Vesting and transfer of shares	–	(35)	(136)
Balance at end of year	151	257	643

At March 31, 2008 the estimated total compensation expense to be recognised over the vesting period was R2,151 million (2007: R580 million; 2006: R381 million), of which R522 million (2007: R141 million; 2006: R120 million) was recognised in employee expenses for the year.

*The increase in the employee costs in the current financial year is mainly as a result of the additional share allocations (refer to note 29).

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
24. Non-distributable reserves	1,128	1,413	1,292
Opening balance	360	1,128	1,413
Movement during the year	768	285	(121)
Foreign currency translation reserve (net of tax of R6 million; 2007: R4 million; 2006: RNil)	52	46	521
Minority put option (refer to note 12)	—	—	(661)
Revaluation of an available-for-sale investment (net of tax of R1 million)	—	—	8
Available-for-sale financial asset	716	239	11
Life fund reserve (Cell captive)			
The balance comprises:	1,128	1,413	1,292
Foreign currency translation reserve	(104)	(58)	463
Cell Captive reserve	1,232	1,471	1,482
Available-for-sale investment	—	—	8
Minority put option	—	—	(661)
<p>The Group has two consolidated cell captives, one used as an investment to fund Telkom's post-retirement medical aid liability and the other is for Vodacom's short-term insurance obligation in respect of handsets.</p> <p>In terms of the Short-term Insurance Act, 1998, the Vodacom Group's cell captive partner, Nova Risk Partners Limited is required to recognise a contingency reserve equal to 10% of premiums written less approved reinsurance (as defined in the Act). This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.</p> <p>The earnings from the cell captives are recognised in the income statement and then transferred to Non-distributable reserves.</p> <p>Gains and losses from changes in the fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of.</p>			
25. Retained earnings	22,904	26,499	27,310
Opening balance	19,232	22,904	26,499
Movement during year	3,672	3,729	2,337
Net profit for the year	9,189	8,646	7,975
Transfer to non-distributable reserves (refer to note 24)	(716)	(239)	(11)
Dividend declared (refer to note 34)	(4,801)	(4,678)	(5,627)
Shares bought back (refer to note 21)	—	(134)	(1,526)
The balance comprises:	22,904	26,499	27,310
Company	18,534	21,906	22,484
Joint venture	4,293	4,762	5,697
Subsidiaries	568	786	428
Eliminations	(491)	(955)	(1,299)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
26. Minority interest	301	284	522
Opening balance	220	301	284
Movement during the year	81	(17)	238
Reconciliation:	301	284	522
Balance at beginning of year	220	301	284
Share of earnings	139	203	197
Acquisition of subsidiaries and minorities	27	(68)	77
Foreign currency translation reserves	(7)	14	29
Dividend declared	(78)	(166)	(65)
27. Interest-bearing debt			
Long-term interest-bearing debt	7,655	4,338	9,403
Total interest-bearing debt	11,123	10,364	15,733
Gross interest-bearing debt	13,686	12,549	17,839
Discount on debt instruments issued	(2,563)	(2,185)	(2,106)
Less: Current portion of interest-bearing debt	(3,468)	(6,026)	(6,330)
Local debt	(2,642)	(5,772)	(6,001)
Locally registered Telkom debt instruments	(2,211)	(4,432)	–
Commercial paper bills	(429)	(1,339)	(3,401)
Short-term interest-free loans	(2)	(1)	–
Call borrowings	–	–	(2,600)
Foreign debt	(786)	(193)	(202)
Finance leases	(40)	(61)	(124)
Licence obligation	–	–	(3)
Total interest-bearing debt is made up as follows:	11,123	10,364	15,733
(a) Local debt	8,938	8,131	12,923
Locally registered Telkom debt instruments	8,507	6,786	8,164
Name, maturity, rate p.a., nominal value			
TK01, 2008, 10%, RNil (2007: R4,680 million; 2006: R4,689 million)	4,230	4,432	–
TL06, 2006, 10.5%, RNil (2007: RNil; 2006: R2,100 million)	2,103	–	–
TL20, 2020, 6%, R2,500 million (2007: R2,500 million; 2006: R2,500 million)	1,214	1,246	1,283
PP02, 2010, 0%, R430 million (2007: R430 million; 2006: R430 million)	230	264	304
PP03, 2010, 0%, R1,350 million (2007: R1,350 million; 2006: R1,350 million)	730	844	977
Call borrowings, 2009, 11.58%, R2,600 million (2007: RNil; 2006: RNil)	–	–	2,600
Term loans, 2010, 12.22%, R3,000 million (2007: RNil; 2006: RNil)	–	–	3,000
Local bonds			
<p>The local Telkom bonds are unsecured, but a side letter to the subscription agreement (as amended) of the TL20 bond, and the R1,600 million Bridge Loan facility, included in call borrowings contain a number of restrictive financial covenants to be maintained by the Group at the following ratios: EBITDA to net interest expense ratio of no less than 3.5:1 and net interest bearing debt to EBITDA ratio of no greater than 3.0:1 which, if not met, could result in the early redemption of the loan. The R1,600 million Bridge Loan facility and R2,000 million Term loan agreement agreements limit the Group's ability to encumber, cede, assign, sell or otherwise dispose of a material portion of its assets without the prior written consent of the Lenders, which will not be unreasonably withheld. The TL20, PP02, and PP03 local bonds limit Telkom's ability to create encumbrances on revenues or assets, and secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness.</p>			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
27. Interest-bearing debt (continued)			
(a) Local debt (continued)			
Commercial paper bills	429	1,339	4,202
Rate p.a., nominal value			
2008, 11.71% (2007: 9.04%; 2006: 7%), R4,383 million (2007: R1,350 million; 2006: R430 million)			
Asset Backed Arbitrated Securities (Proprietary) Limited	—	—	500
On December 5, 2007 Vodacom (Proprietary) Limited entered into a subscription agreement with Asset Backed Arbitrated Securities (Proprietary) Limited ('ABACAS'). In terms of the agreement Vodacom (Proprietary) Limited issued debt instruments in the form of two promissory notes with a nominal value of R500 million (Group shares: R250 million) each to which ABACAS subscribed. The debt instrument will bear interest based on JIBAR plus credit margin and funding margin. The repayment term is three years with interest being paid quarterly. The credit margin is 0.4% and the funding margin is 0.18% and 0.15% respectively.			
Licence Obligation	—	—	47
On December 9, 2004, ICASA amended the Vodacom South Africa licence to allow for access to the 1800 Megahertz frequency spectrum band and the 3G radio spectrum band. The costs to the Group for the 1800 Megahertz frequency band obligations is estimated at R68.8 million (Group share R34.4 million). The net present value, at a discount rate of 8%, over three years amounts to R64 million (Group share: R32 million). The cost to the Group for the 3G radio spectrum band obligation is estimated at R36.8 million (Group share: R18.4 million). The net present value, at a discount rate of 8%, over three year amounts to R32.2 million (Group share: R16.1 million).			
Other debt	2	6	10
Other debt includes Vodacom Group shareholders' loans with variable payment terms. Group share is 50% on the respective balances.			
(b) Foreign debt	<u>913</u>	<u>1,013</u>	<u>1,643</u>
Maturity, rate p.a., nominal value	85	106	141
Euro: 2010 – 2025, 0.1% – 0.14% (2007: 0.10% – 0.14%; 2006: 0.10% – 6.81%), € 11 million (2007: € 11 million; 2006: € 11 million)			
Mirambo Limited	—	—	72
Mirambo Limited bought the 16% and 19% equity stake of Planetel Communications Limited and Caspian Limited respectively in Vodacom Tanzania Limited on November 30, 2007. The shareholder loans with a combined nominal value of USD18 million (Group share: USD9 million), were transferred to Mirambo Limited in order to meet its obligations to Vodacom Tanzania Limited in respect of shareholder contributions. The loan bears interest at LIBOR plus 5% and shall be repaid by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan and capitalised interest are unsecured and subordinated.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
27. Interest-bearing debt (continued)			
(b) Foreign debt (continued)			
Planetel Communications Limited	21	27	—
The shareholder loan of USD8 million (2007: USD8 million; 2006: USD8 million) (Group share: USD4 million; 2007: USD4 million; 2006: USD4 million) was subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, which expired at the end of the current financial year, bore no interest from April 1, 2002, and was thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on remeasurement was included in equity. On November 30, 2007 Planetel Communications Limited sold its 16% shareholding in Vodacom Tanzania Limited to Mirambo Limited.			
Caspian Limited	25	32	—
The shareholder loan of USD10 million (2007: USD10 million; 2006: USD10 million) (Group share: USD5 million; 2007: USD5 million; 2006: USD5 million) was subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002, and was thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on remeasurement was included in equity. On November 30, 2007 Caspian Limited sold its 19% shareholding in Vodacom Tanzania Limited to Mirambo Limited.			
Loan to Vodacom International Limited	557	655	731
The loan provided by Standard Bank Plc and RMB International (Dublin) Limited that amounts to USD180 million (2007: USD180 million; 2006: USD180 million) (Group share: USD90 million; 2007: USD90 million; 2006: USD90 million) is collateralised by guarantees provided by the Vodacom Group. The loan originally repayable on July 19, 2006, was refinanced during the 2007 financial year. The loan is now repayable on July 26, 2009 and bears interest at an effective interest rate of LIBOR plus 0.35%.			
Project finance funding for Vodacom Tanzania Limited	92	47	—
The drawn down portions of the project finance funding from external parties include the following:			
(a) Netherlands Development Finance Company USDNil (2007: USD4 million; 2006: USD8 million) (Group share: USDNil; 2007: USD2 million; 2006: USD4 million)			
(b) Deutsche Investitions – und Entwicklungsgesellschaft mbH € Nil (2007: € 4 million; 2006: € 8 million) (Group share: € Nil; 2007: € 2 million; 2006: € 4 million)			
(c) Standard Corporate and Merchant Bank USDNil (2007: USD4 million; 2006: USD8 million) (Group share: USDNil; 2007: USD2 million; 2006: USD4 million)			
(d) Barclays Bank (Local Syndicate Tanzania) TSHNil (2007: TSHNil; 2006: TSH5,704 million) (Group share: TSHNil; 2007: TSHNil; 2006: TSH2,852 million).			
The funding was collateralised by a charge over 51% of the shares, the license and Vodacom Tanzania Limited's tangible assets and intangible assets. The loans bore interest based upon the foreign currency denomination of the project financing between 6% and 14.4% per annum and was fully repaid in the 2008 financial year.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
27. Interest-bearing debt (continued)			
(b) Foreign debt (continued)			
Vodacom Congo (RDC) s.p.r.l.	19	11	4
Vodacom's share of the short-term facilities amount to USD1 million (2007: USD3 million; 2006: USD6 million) (Group share: USD1 million; 2007: USD2 million; 2006: USD3 million) bears interest at 18% per annum with no fixed repayment terms. USD2 million (Group share: USD1 million) of these facilities was repaid on June 30, 2007 and bore interest at LIBOR plus 6% per annum.			
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	114	135	150
The preference shares of USD37 million (2007: USD37 million; 2006: USD37 million) (Group share: USD19 million; 2007: USD19 million; 2006: USD19 million) bear interest at a rate of 4% per annum. The preference shares are redeemable at the discretion of the shareholders and on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.			
Zenith Bank	—	—	45
Multi-Links Telecommunications Limited has taken out a loan from Zenith Bank. The original loan amounted to USD14 million against which repayments amounting to USD8.4 million have already been made. The loan bears interest at LIBOR plus 3.5% and will be repaid during 2008.			
FCMB Loan	—	—	87
Multi-Links Telecommunications Limited has taken out a FCMB loan. The original loan amounted to Naira 1,500 million against which repayments amounting to Naira 250 million have already been made. The loan bears interest at 13% and will be fully repaid during 2010. This loan is secured by a charge of assets valued at N520 million.			
Export Development Bank of Canada	—	—	82
Multi-Links Telecommunications Limited has a long-term funding facility in place with Export Development Bank of Canada (EDC), through First Bank of Nigeria Plc. The original funding amounted to USD18 million against which USD8 million repayments have already been made. The loan bears interest at LIBOR plus 2.5%, and will be fully repaid during 2014.			
Huawei Vendor Financing Facility VFF	—	—	319
Multi-Links Telecommunications Limited entered into a Bridge Financing agreement with Huawei Tech Investment Co. Limited for the supply of telecommunications equipment and services. The original funding amounted to USD41.6 million against which repayments of USD2 million have already been made. The loan bears interest at LIBOR plus 2% and will be repaid by 2010. The above arrangement is temporary until financing facilities are obtained from China Development Bank.			
PTA Bank and Barclays Bank	—	—	12
Africa Online Group has taken out a loan from PTA Bank and Barclays Bank that in total amounts to USD1.5 million. Of this amount USD0.8 million bears interest at LIBOR plus 6% and the remaining USD0.4 million bears interest at 11.5%.			
(c) Finance leases	1,272	1,220	1,167
The finance leases are secured by buildings with a carrying value of R634 million (2007: R564 million; 2006: R618 million) and office equipment with a book value of R14 million (2007: R10 million; 2006: R6 million) (refer to note 10). These amounts are repayable within periods ranging from 1 to 12 years. Interest rates vary between 13% and 38%.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

27. Interest-bearing debt (continued)

Included in long-term and short-term debt is:

Debt guaranteed by the South African Government

4,315	4,537	141
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A major portion of the guaranteed debt for the years ended March 31, 2007 and 2006 relates to the TK01 debt instrument, however, this instrument has been redeemed in full during the year ended March 31, 2008.

Telkom may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. The borrowing powers of Telkom are set out as per note 20.

Repayments/refinancing of current portion of interest-bearing debt
The repayment/refinancing of R6,330 million of the current portion of interest-bearing debt will depend on the market circumstances at the time of repayment.

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

Loans raised and loans repaid on the cash flow statement increased due to raising and redemption of the Commercial Paper Bills in Telkom, as well as newly acquired Asset Backing finance in Vodacom.

28. Provisions

	2,677	1,443	1,675
Employee related	4,293	3,005	3,186
Annual leave	356	413	438
Balance at beginning of year	337	356	413
Charged to employee expenses	88	66	44
Leave paid	(69)	(9)	(19)
Post-retirement medical aid (refer to note 29)	2,607	1,139	1,356
Balance at beginning of year	2,430	2,607	1,139
Interest cost	249	286	322
Current service cost	48	83	84
Expected return on plan asset	—	(188)	(257)
Actuarial loss	63	149	129
Curtailment gain	(8)	—	—
Settlement loss	7	—	—
Termination settlement	(29)	—	—
Plan asset – initial recognition	—	(1,720)	—
Contributions paid	(153)	(78)	(61)
Telephone rebates (refer to note 29)	198	282	287
Balance at beginning of year	179	198	282
Interest cost	16	19	22
Current service cost	3	4	3
Past service cost	—	76	2
Actuarial loss	—	5	—
Benefits paid	—	(20)	(22)
Bonus	1,071	1,090	992
Balance at beginning of year	826	1,071	1,090
Charged to employee expenses	965	965	797
Payments made	(720)	(946)	(895)
Long-term incentive provision*	61	81	113
Balance at beginning of year	—	61	81
Charged to employee expenses	69	21	41
Payment	(8)	(1)	(9)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
28. Provisions			
Non-employee related	44	533	670
Supplier dispute (refer to note 38)	–	527	569
Balance at beginning of year	–	–	527
Net movements	–	527	42
Warranty provision	16	–	–
Balance at beginning of year	14	16	–
Charged to expenses	20	–	–
Provision utilised	(18)	(16)	–
Other	28	6	101
Less: Current portion of provisions	(1,660)	(2,095)	(2,181)
Annual leave	(356)	(402)	(417)
Post-retirement medical aid	(159)	(186)	(186)
Telephone rebates	(17)	(26)	(26)
Bonus	(1,071)	(911)	(921)
Supplier dispute	–	(527)	(569)
Warranty provision	(16)	–	–
Other	(41)	(43)	(62)

Annual leave

In terms of Telkom's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (previously 25 days) which must be taken within an 18 month leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The Telkom bonus scheme consists of performance bonuses which are dependent on achievement of certain financial and non-financial targets. The bonus is payable bi-annually to all qualifying employees after Telkom's results have been made public.

Vodacom's bonus provision consists of a performance bonus based on the achievement of the predetermined financial targets payable to all levels of staff.

Deferred bonus incentive

Vodacom's deferred bonus incentive provision represents the present value of the expected future cash outflows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision is utilised when eligible employees receive the value of vested entitlements.

Supplier dispute

Telkom provided R569 million (2007: R527 million; 2006: RNil) for its estimate of the probable liability as discussed in note 38. The net movement in the provision of R42 million (2007: R17 million; 2006: R Nil) consists of Finance charges and fair value movements offset by provisional payments made during the current year.

Warranty provision

The warranty provision in Vodacom covers manufacturing defects in the second year of warranty on handsets sold to customers. The estimate is based on claims notified and past experience. The suppliers of the various handsets assumed responsibility for the second year warranty subsequent to March 31, 2007 and accordingly there is no remaining provision.

Other

Included in other provisions is an amount provided for asset retirement obligations.

Other provisions also include advertising received from suppliers of handsets and various other smaller provisions.

*In the previous year the long-term incentive provision was included in other provisions.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

29. Employee benefits

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund and the Vodacom Group Pension Fund. Membership of one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

At March 31, 2008, the Group employed 33,616 employees (2007: 33,047; 2006: 31,458).

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

The Telkom Pension Fund

The latest actuarial valuation performed at March 31, 2008 indicates that the pension fund is in a surplus position of R84 million after unrecognised gains. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS19 (revised).

The last statutory funding valuation of the fund performed in March 2007, indicated that the fund is fully funded. The current contributions (plus an annual top-up lump sum if necessary) are based on that valuation. Management expects to complete the next statutory valuation in November 2008.

With effect from July 1, 1995, the Telkom Pension Fund was closed to new members. During the financial year ended March 31, 2007, a settlement event occurred in the Telkom Pension Fund whereby 106 members were transferred to the Telkom Retirement Fund.

The funded status of the Telkom Pension Fund is disclosed below.

	2006 Rm	2007 Rm	2008 Rm
The Telkom Pension Fund			
The net periodic pension costs includes the following components:			
Interest and service cost on projected benefit obligations	22	22	21
Expected return on plan assets	(24)	(19)	(27)
Recognised actuarial loss/(gain)	78	9	(16)
Settlement loss/(gain)	–	21	(2)
Asset Limitation	–	–	29
Net periodic pension expense recognised	76	33	5
Pension fund contributions (refer to note 5.1)	22	8	5
The status of the pension plan obligation is as follows:			
At beginning of year	186	281	205
Interest and service cost	22	22	21
Employee contributions	4	2	2
Benefits paid	(20)	(2)	(3)
Settlements	–	(70)	(15)
Actuarial loss/(gain)	89	(28)	(6)
Benefit obligation at end of year	281	205	204
Plan assets at fair value:			
At beginning of year	231	243	284
Expected return on plan assets	24	19	27
Benefits paid	(20)	(2)	(3)
Contributions	26	10	8
Settlements	–	(61)	(15)
Actuarial (loss)/gain	(18)	75	10
Plan assets at end of year	243	284	311

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
29. Employee benefits (continued)			
The Telkom Pension Fund (continued)			
Present value of funded obligation	281	205	204
Fair value of plan assets	(243)	(284)	(311)
Fund status	38	(79)	(107)
Unrecognised net actuarial (loss)/gain	(118)	25	23
Net surplus	(80)	(54)	(84)
Asset Limitation	–	–	29
Recognised net asset	(80)	(54)	(55)
Expected return on plan assets	24	19	27
Actuarial (loss)/return on plan assets	(18)	75	10
Actual return on plan assets	6	94	37
Principal actuarial assumptions were as follows:			
Discount rate (%)	7.5	7.5	9.0
Yield on government bonds (%)	7.5	7.5	9.0
Long-term return on equities (%)	10.5	10.5	11.0
Long-term return on cash (%)	5.5	5.5	7.0
Expected return on plan assets (%)	9.5	9.7	9.8
Salary inflation rate (%)	6.0	6.0	7.5
Pension increase allowance (%)	2.9	2.9	4.3
The overall long-term expected rate of return on assets is 9.75%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Telkom pension fund and expected long-term return of these assets, of which South African equities and foreign investments are the largest contributors.			
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.			
Funding level per statutory actuarial valuation (%)	99.8	100.0	100.0
The number of employees registered under the Telkom Pension Fund	255	153	146
The fund portfolio consists of the following:			
Equities (%)	84	74	54
Bonds (%)	9	5	5
Cash (%)	7	3	23
Foreign Investments (%)*	–	16	18
Insurance policies (%)	–	2	–
The total expected contributions payable to the pension fund for the next financial year are R7 million.			

*Includes offshore unit trusts.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

29. Employee benefits (continued)

The Telkom Retirement Fund

The Telkom Retirement Fund was established on July 1, 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after July 1, 1995 were transferred to the Telkom Retirement Fund. Upon transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to July 1, 1995 further transfers of existing employees occurred.

The Telkom Retirement Fund is a defined contribution fund with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom, as a guarantor, is contingently liable for any deficit in the Telkom Retirement Fund. Moreover, all of the assets in the Fund, including any potential excess belong to the participants of the scheme. Telkom is unable to benefit from the excess in the form of future reduced contributions.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund. The latest actuarial valuation performed at March 31, 2008 indicates that the retirement fund is in a surplus funding position of R1,368 million after unrecognised losses.

The Telkom Retirement Fund is governed by the Pension Funds Act 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. If therefore the present value of the funded obligation were to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

The information presented below is intended only to comply with the disclosure requirements of IAS19 (revised) and not to suggest that Telkom has a potential asset with regards to this Fund.

The funded status of the Telkom Retirement Fund is disclosed below:

	2006 Rm	2007 Rm	2008 Rm
The Telkom Retirement Fund			
The net periodic retirement costs include the following components:			
Interest and service cost on projected benefit obligations	346	312	493
Expected return on plan assets	(430)	(489)	(686)
Recognised actuarial gain	–	(145)	–
Net periodic pension expense not recognised (Asset limitation)	(84)	(322)	(193)
Retirement fund contributions (refer to note 5.1)	383	439	460
Benefit obligation:			
At beginning of year	4,020	4,377	6,581
Interest and service cost	346	312	493
Benefits paid	(377)	(486)	(488)
Liability for new pensioners	–	44	14
Actuarial loss	388	2,334	501
Benefit obligation at end of year	4,377	6,581	7,101
Plan assets at fair value:			
At beginning of year	4,477	5,973	7,661
Expected return on plan assets	431	489	686
Benefits paid	(377)	(486)	(488)
Asset backing new pensioners' liabilities	–	44	14
Actuarial gain	1,442	1,641	118
Plan assets at end of year	5,973	7,661	7,991

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm																																				
29. Employee benefits (continued)																																							
The Telkom Retirement Fund (continued)																																							
Present value of funded obligation	4,377	6,581	7,101																																				
Fair value of plan assets	(5,973)	(7,661)	(7,991)																																				
Fund Status	(1,596)	(1,080)	(890)																																				
Unrecognised net actuarial gain/(loss)	742	(96)	(478)																																				
Unrecognised net asset	(854)	(1,176)	(1,368)																																				
Expected return on plan assets	430	489	686																																				
Actuarial gain on plan assets	1,442	1,641	118																																				
Actual return on plan assets	1,872	2,130	804																																				
Included in the fair value of plan assets is:																																							
Office buildings occupied by Telkom	274	371	596																																				
Telkom bonds	56	21	10																																				
Telkom shares	287	284	141																																				
<p>The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invests in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund. The international investment portfolio consists of global equity and hedged funds.</p> <p>Principal actuarial assumptions were as follows:</p> <table> <tr> <td>Discount rate (%)</td><td>7.5</td><td>7.5</td><td>9.0</td></tr> <tr> <td>Yield on government bonds (%)</td><td>7.5</td><td>7.5</td><td>9.0</td></tr> <tr> <td>Long-term return on equities (%)</td><td>10.5</td><td>10.5</td><td>11.0</td></tr> <tr> <td>Long-term return on cash (%)</td><td>5.5</td><td>5.5</td><td>7.0</td></tr> <tr> <td>Expected return on plan assets (%)</td><td>8.5</td><td>9.3</td><td>10.3</td></tr> <tr> <td>Pension increase allowance (%)</td><td>2.9</td><td>4.5</td><td>6.0</td></tr> </table> <p>The overall long-term expected rate of return on assets is 10.3%. This is based on the portfolio as a whole and not the sum of the returns of individual asset categories. The expected return takes into account the asset allocation of the Retirement Fund and expected long-term return on these assets, of which South African equities, foreign investments and SA fixed interest bonds are the largest contributors.</p> <p>Experience adjustment</p> <p>During the March 31, 2007 year end Telkom actuaries have performed a full valuation while for the March 31, 2006 year end a roll forward method was used, as permitted under IAS 19, to determine the present value of the benefit obligation and the fair value of the plan assets using the March 31, 2005 statutory valuation as a base applying the relevant assumptions determined by management to arrive at the present value of the benefit obligation, and the fair value of plan assets.</p> <p>This change in estimate resulted in a movement to the actuarial loss of R700 million and the fair value of the plan assets of R350 million in the respect of the 31 March 2007 estimates. The remaining R1,291 million is a result of the actual investment returns exceeding the expected return for the March 31, 2007 year end.</p> <p>The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.</p> <table> <tr> <td>Funding level per statutory actuarial valuation (%)</td><td>100</td><td>100</td><td>100</td></tr> <tr> <td>The number of pensioners registered under the Telkom Retirement Fund</td><td>14,323</td><td>14,451</td><td>14,255</td></tr> <tr> <td>The number of in-service employees registered under the Telkom Retirement Fund</td><td>25,320</td><td>25,766</td><td>24,939</td></tr> </table>				Discount rate (%)	7.5	7.5	9.0	Yield on government bonds (%)	7.5	7.5	9.0	Long-term return on equities (%)	10.5	10.5	11.0	Long-term return on cash (%)	5.5	5.5	7.0	Expected return on plan assets (%)	8.5	9.3	10.3	Pension increase allowance (%)	2.9	4.5	6.0	Funding level per statutory actuarial valuation (%)	100	100	100	The number of pensioners registered under the Telkom Retirement Fund	14,323	14,451	14,255	The number of in-service employees registered under the Telkom Retirement Fund	25,320	25,766	24,939
Discount rate (%)	7.5	7.5	9.0																																				
Yield on government bonds (%)	7.5	7.5	9.0																																				
Long-term return on equities (%)	10.5	10.5	11.0																																				
Long-term return on cash (%)	5.5	5.5	7.0																																				
Expected return on plan assets (%)	8.5	9.3	10.3																																				
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The number of in-service employees registered under the Telkom Retirement Fund	25,320	25,766	24,939																																				

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
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29. Employee benefits (continued)

The Telkom Retirement Fund (continued)

The fund portfolio consists of the following:

Equities (%)	72	59	70
Property (%)	4	2	2
Bonds (%)	21	19	11
Cash (%)	3	7	1
Foreign investments (%)	–	13	16

The total expected contributions payable to the Retirement Fund for the next financial year are R514 million.

Vodacom Group Pension Fund

All eligible employees of the Vodacom Group are members of the Vodacom Group Pension Fund, a defined contribution pension scheme. Certain executive employees of the Group are also members of the Vodacom Executive Provident Fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. The Group's share of the current contributions to the pension fund amounted to R57 million (2007: R42 million; 2006: R38 million). The Group's share of the current contributions to the provident fund amounted to R7 million (2007: R6 million; 2006: R6 million). South African funds are governed in terms of the Pension Fund Act of 1956.

Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 5.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 29. Telkom has terminated future post-retirement medical benefits in respect of employees joining after July 1, 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 1994 ('Post-94'); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases annually with the average salary increase.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at March 31, 2008.

Telkom has allocated certain investments to fund this liability as set out in note 13. The cell captive annuity policy qualified as a plan asset in terms of IAS19, effective June 1, 2006.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
29. Employee benefits (continued)			
Medical benefits (continued)			
Medical aid			
Benefit obligation:			
At beginning of year	3,079	3,904	4,384
Interest cost	249	286	322
Current service cost	48	83	84
Actuarial loss	712	283	246
Settlement gain	(2)	–	–
Termination settlement	(29)	–	–
Benefits paid from plan assets	–	(94)	(125)
Contributions paid by Telkom	(153)	(78)	(61)
Benefit obligation at end of year	3,904	4,384	4,850
Plan assets at fair value:			
At beginning of year	–	–	1,961
Plan asset – initial recognition	–	1,720	–
Expected return on plan assets	–	188	257
Benefits paid from plan assets	–	(94)	(125)
Actuarial gain/(loss)	–	147	(164)
Plan assets at end of year	–	1,961	1,929
Present value of funded obligation	3,904	4,384	4,850
Fair value of plan assets	–	(1,961)	(1,929)
Funded status	3,904	2,423	2,921
Unrecognised net actuarial loss	(1,297)	(1,284)	(1,565)
Liability as disclosed in the balance sheet (refer to note 28)	2,607	1,139	1,356
Expected return on plan assets	–	188	257
Actuarial return on plan assets	–	147	(164)
Actual return on plan assets	–	335	93
Principal actuarial assumptions were as follows:			
Discount rate (%)	7.5	7.5	9.0
Expected return on plan assets (%)	–	13.5	12.0
Salary inflation rate (%)	6.0	6.0	7.5
Medical inflation rate (%)	6.5	6.5	8.0

The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.

Contractual retirement age	65	65	65
Average retirement age	60	60	60
Number of members	17,872	17,119	15,526
Number of pensioners	8,665	8,494	8,430

The valuation results are extremely sensitive to changes in the underlying assumptions. The following table provides an indication of the impact of changing some of the valuation assumptions above:

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

29. Employee benefits (continued)

Medical benefits (continued)

The TDS benefit obligation of R19 million has been excluded from the sensitivity analysis below.

	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	8.0%	(1.0%)	1.0%
Benefit obligation	4,831	(672)	845
Percentage change		(13.9%)	17.5%
Service cost and interest cost 2008/2009	521	(76)	97
Percentage change		(14.6%)	18.6%
Discount rate	9.0%	(1.0%)	1.0%
Benefit obligation	4,831	855	(670)
Percentage change		17.7%	(13.9%)
Service cost and interest cost 2008/2009	521	41	(35)
Percentage change		7.9%	(6.7%)
Post-retirement mortality rate	PA(90) Ultimate-1	(10.0%)	10.0%
Benefit obligation	4,831	196	(173)
Percentage change		4.1%	(3.6%)
Service cost and interest cost 2008/2009	521	19	(17)
Percentage change		3.6%	(3.3%)
The fund portfolio consists of the following:			
Equities (%)		59	56
Bonds (%)		3	2
Cash and money markets investments (%)		21	33
Foreign investments (%)		9	9
Insurance policies (%)		8	–

Telephone rebates

Telkom provides telephone rebates to its pensioners. The most recent actuarial valuation was performed as at March 31, 2008. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:

	2006 Rm	2007 Rm	2008 Rm
Present value of unfunded obligation	251	307	443
Unrecognised net actuarial loss*	(53)	(25)	(156)
Liability as disclosed in the balance sheet (refer to note 28)	198	282	287
Principal actuarial assumptions were as follows:			
Discount rate (%)	7.5	7.5	9.0
Rebate inflation rate (%)	0.0	0.0	4.0
Contractual retirement age	65	65	65
Average retirement age	60	60	60

*The major increase is attributable to the change in the Rebate inflation rate.

The assumed rates of mortality are determined by reference to the SA85-90 (Light) Ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.

Number of members	19,164	19,515	18,766
Number of pensioners	11,148	10,918	10,680

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

29. Employee benefits (continued)

Telkom Conditional Share Plan

Telkom's shareholders approved the Telkom Conditional Share Plan at the January 2004 Annual General Meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a RNiI exercise price, at the end of the vesting period. The vesting period for the operational employees shares awarded in 2004 and 2005 is 0% in year one, 33% in each of the 3 years thereafter, while the shares allocated in 2006 and 2007 together with management shares vest fully after 3 years. Although the number of shares awarded to employees will be communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met (Refer note 22).

The weighted average remaining vesting period for the shares outstanding as at March 31, 2008 is 1.25 years (2007: 1.75 years; 2006: 1.75 years).

	2006	2007	2008
The following table illustrates the movement of the maximum number of shares that will vest to employees for the August 2004 grant:			
Outstanding at beginning of the year	2,943,124	2,414,207	1,883,991
Granted during the year	90	1,212	252
Forfeited during the year	(67,573)	(80,923)	(43,790)
Vested during the year	(17,341)	(450,505)	(1,419,863)
Settled during the year	(444,093)	–	–
Outstanding at end of the year	2,414,207	1,883,991	420,590
The following table illustrates the movement of the maximum number of shares that will vest to employees for the June 2005 grant:			
Outstanding at beginning of the year	–	1,930,687	1,864,041
Granted during the year	2,024,465	1,005	3,469
Forfeited during the year	(62,354)	(67,651)	(108,177)
Vested during the year	(12,328)	–	(323,946)
Settled during the year	(19,096)	–	–
Outstanding at end of the year	1,930,687	1,864,041	1,435,387
The following table illustrates the movement of the maximum number of shares that will vest to employees for the November 2006 grant:			
Outstanding at beginning of the year	–	–	1,773,361
Granted during the year	–	1,825,488	833
Forfeited during the year	–	(52,127)	(133,214)
Outstanding at end of the year	–	1,773,361	1,640,980
The following table illustrates the movement of the maximum number of shares that will vest to employees for the additional November 2006 grant:			
Outstanding at beginning of the year	–	–	–
Granted during the year	–	–	4,984,693
Forfeited during the year	–	–	(172,388)
Outstanding at end of the year	–	–	4,812,305
The following table illustrates the movement of the maximum number of shares that will vest to employees for the September 2007 grant:			
Outstanding at beginning of the year	–	–	–
Granted during the year	–	–	6,117,163
Forfeited during the year	–	–	(270,527)
Outstanding at end of the year	–	–	5,846,636

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

29. Employee benefits (continued)

Telkom Conditional Share Plan

The fair value of the shares granted have been calculated by an actuary using the Black-Scholes-Merton model and the following values at grant date:

	August 8, 2004 Grant	June 23, 2005 Grant	November 2, 2006 Grant	September 4, 2007 Grant*
Market share price (R)	77.50	111.00	141.25	173.00
Dividend yield (%)	2.60	3.60	3.50	3.50

*The same information was used for the November 2006 additional grant.

	2006	2007	2008
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The principal assumptions used in calculating the expected number of shares that will vest are as follows:

Employee turnover (%)	5	5	5
Meeting specified performance criteria (%)	100	100	100

	2006	2007	2008
	Rm	Rm	Rm

Long-term incentive provision

The long-term incentive provision represents the present value of the expected future cash outflows to eligible employees that qualify. The amount of the liability is based on an actuarial valuation. The provision is utilised when eligible employees of the Vodacom Group receive the value of vested benefits.

The Group exposure is 50% of the following items:

Net liability at beginning of year	–	122	161
Interest cost	7	10	15
Current service cost	9	18	20
Past service and interest costs	76	–	–
Actuarial loss	47	13	62
Net cost	139	163	258
Total benefit payments	(17)	(2)	(33)
Net liability at end of year	122	161	225

The amounts for the current and previous four years are as follows:

	2004 Rm	2005 Rm	2006 Rm	2007 Rm	2008 Rm
Telkom Pension Fund					
Defined benefit obligation	(190)	(186)	(281)	(205)	(204)
Plan assets	219	231	243	284	311
Surplus/(deficit)	29	45	(38)	79	107
Asset limitation	–	–	–	–	(29)
Unrecognised actuarial loss/(gain)	100	89	118	(25)	(23)
Unrecognised/recognised net asset	129	134	80	54	55
Experience adjustment on assets				75	10
Experience adjustment on liabilities				25	(6)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2004 Rm	2005 Rm	2006 Rm	2007 Rm	2008 Rm
29. Employee benefits (continued)					
Telkom Retirement Fund					
Defined benefit obligation	(3,162)	(4,020)	(4,377)	(6,581)	(7,101)
Plan assets	3,540	4,477	5,973	7,661	7,991
Surplus	378	457	1,596	1,080	890
Unrecognised actuarial gain/(loss)	382	312	(742)	96	478
Unrecognised net asset	760	769	854	1,176	1,368
Experience adjustment on assets				1,641	118
Experience adjustment on liabilities				1,234	485
Medical benefits					
Defined benefit obligation	(2,378)	(3,079)	(3,904)	(4,384)	(4,850)
Plan assets	–	–	–	1,961	1,929
Deficit	(2,378)	(3,079)	(3,904)	(2,423)	(2,921)
Unrecognised actuarial (gain)/loss	(42)	649	1,297	1,284	1,565
Liability recognised	(2,420)	(2,430)	(2,607)	(1,139)	(1,356)
Experience adjustment on assets				147	(164)
Experience adjustment on liabilities				28	193
Telephone rebates					
Defined benefit obligation	(164)	(177)	(251)	(307)	(443)
Unrecognised actuarial (gain)/loss	–	(2)	53	25	156
Liability recognised	(164)	(179)	(198)	(282)	(287)
Experience adjustment on liabilities				(25)	2

	2006 Rm	2007 Rm	2008 Rm
30. Trade and other payables	6,103	7,237	8,771
Trade payables	4,371	5,511	6,768
Finance cost accrued	141	22	39
Accruals and other payables	1,591	1,704	1,964

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

Change in comparatives

Trade payables have decreased by R125 million in 2007 (2006: Rnil) due to the reclassification of the Vodacom DRC put option from trade and other payables to other financial liabilities.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
31. Reconciliation of profit for the year to cash generated from operations	19,724	20,520	21,256
Profit for the year	9,328	8,849	8,172
Finance charges and fair value movements	1,223	1,125	1,803
Taxation	4,523	4,731	4,704
Investment income	(397)	(235)	(197)
Interest received from debtors	(136)	(190)	(257)
Non-cash items	6,206	6,582	6,930
Depreciation, amortisation, impairment and write-offs	5,876	5,315	6,130
Cost of equipment disposed when recognising finance leases	—	240	88
Increase in provisions	554	1,107	857
Profit on disposal of property, plant and equipment and intangible assets	(79)	(29)	(147)
Profit on disposal of investment and subsidiaries	(163)	(52)	—
Loss on disposal of property, plant and equipment and intangible assets	18	1	2
(Increase)/decrease in working capital	(1,023)	(342)	101
Inventories	(198)	(393)	(354)
Accounts receivable	(667)	(758)	(784)
Accounts payable	(158)	809	1,239
32. Finance charges paid	(1,316)	(1,115)	(1,077)
Finance charges per income statement	(1,223)	(1,125)	(1,803)
Non-cash items	(93)	10	726
Movements in interest accruals	(276)	(119)	101
Net discount amortised	423	409	568
Fair value adjustment	(312)	(338)	(243)
Unrealised gain	72	58	300
33. Taxation paid	(4,550)	(5,690)	(4,277)
Net liability at beginning of year	(1,711)	(1,549)	(74)
Current taxation (excluding deferred taxation)	(3,795)	(3,545)	(3,807)
Foreign currency translation reserve	—	—	(32)
Business combinations	(8)	—	—
Secondary Taxation on Companies	(585)	(670)	(678)
Net taxation liability at end of year	1,549	74	314
Reconciliation of net taxation liability at end of year	(1,549)	(74)	(314)
Income tax receivable	—	520	9
Income tax payable	(1,549)	(594)	(323)

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
34. Dividend paid	(4,884)	(4,784)	(5,732)
Dividend payable at beginning of year	(7)	(4)	(15)
Declared during the year – Dividend on ordinary shares:	(4,801)	(4,678)	(5,627)
Final dividend for 2005: 400 cents	(2,134)	–	–
Special dividend for 2005: 500 cents	(2,667)	–	–
Final dividend for 2006: 500 cents	–	(2,599)	–
Special dividend for 2006: 400 cents	–	(2,079)	–
Final dividend for 2007: 600 cents	–	–	(3,069)
Special dividend for 2007: 500 cents	–	–	(2,558)
Dividends paid to minorities	(80)	(117)	(110)
Dividend payable at end of year	4	15	20

35. Acquisition and disposals of subsidiaries, joint ventures and minority shareholders' interests

35.1 Acquisitions

By Telkom

Africa Online Limited ('Africa Online')

On February 23, 2007 Telkom acquired a 100% shareholding of Africa Online from African Lakes Corporation for a total cost of R150 million, with a resulting goodwill of R145 million.

Africa Online is an internet service provider active in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. Africa Online is incorporated in the Republic of Mauritius.

At acquisition date the company was not IFRS compliant and thus no fair value information based on IFRS was available.

The process of calculating a fair value of the identified assets, liabilities and contingent liabilities continued after the preceding year end and has now been finalised.

The fair value of the assets and liabilities acquired were determined as follows:

Fair value of intangible assets (Licences R1 million, Brand R42 million)	43
Less: Deferred taxation raised on intangible assets	(12)
Less: Net liabilities acquired (excluding fair value of intangible assets)	(26)

Fair value of net assets acquired	5
Goodwill	145
Purchase price	150

The goodwill has been allocated to the various cash-generating units ('CGU') representative of the countries in which Africa Online Limited operates. An impairment loss of R12 million was recognised relating to the Tanzanian and Ghana cash generating units in 2008 in order to write down goodwill to the recoverable amount. The recoverable amount represents the value in use of the CGU's and has been determined using 11.6% discount rate.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

35. Acquisition and disposals of subsidiaries, joint ventures and minority shareholders' interests (continued)

35.1 Acquisitions (continued)

By the Group's 50% joint venture, Vodacom

Smartphone SP (Proprietary) Limited and subsidiaries

('Smartphone SP')

On August 30, 2006 the Vodacom Group acquired a further 19% interest.

On August 31, 2007 the Vodacom Group increased its interest in the equity of Smartphone SP from 70% to 100%. The acquisition was accounted for using the parent entity extension method.

Minority interest acquired	11	3
Goodwill	157	466
Purchase price (including capitalised cost)	168	469
Less: Capitalised costs payable	–	(1)
Purchase price	168	468

Smartcom (Proprietary) Limited ('Smartcom')

On September 13, 2006 the Vodacom Group increased its interest to 88%.

On September 1, 2007 the Vodacom Group increased its interest in the equity of Smartcom from 88% to 100%. The acquisition was accounted for using the parent entity extension method.

Minority interest acquired (<R1 million)	–	–
Goodwill	4	9
Purchase price	4	9

The purchase price of R18 million (Group's share: R9 million) was paid on September 6, 2007.

Africell Cellular Services (Proprietary) Limited

Effective October 1, 2006 the Vodacom Group acquired the cellular business of Africell Cellular Services (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined as follows:

Fair value of assets acquired	25
Less: Deferred taxation liability (including taxation effect on intangible assets)	(7)
Fair value of net assets acquired	18
Goodwill	22
Purchase price	40

The customer base was not previously recorded in the accounting records of Africell Cellular Services (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control Vodacom Group's customers in South Africa.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

35. Acquisition and disposals of subsidiaries, joint ventures and minority shareholders' interests (continued)

35.1 Acquisitions (continued)

By the Group's 50% joint venture, Vodacom InterConnect s.p.r.l.

Effective November 1, 2006 the Vodacom Group acquired the internet service provider business of InterConnect s.p.r.l. The fair values of the assets and liabilities acquired were determined as follows:

Fair value of assets acquired	6
Less: Deferred taxation liability	(2)
Fair value of net assets acquired	4
Goodwill	6
Purchase price	10

The initial purchase price of R21 million (USD3 million) (Group share: R10 million) excluding capitalised costs was paid on November 1, 2006.

The goodwill related to the acquisition represents future synergies and are allocated to the Democratic Republic of Congo cash-generating unit.

Cointel V.A.S. (Proprietary) Limited

On August 1, 2005 the Vodacom Group acquired a 51% interest in the equity of Cointel V.A.S. (Proprietary) Limited.

On October 4, 2006 the Vodacom Group increased its interest to 100% by acquiring 49% from the minority shareholders. The acquisition was accounted for using the parent entity extension method. The goodwill related to the acquisition represents future synergies and are allocated to the mobile South African cash-generating unit.

Fair value of net assets acquired	47	–
Minority interest	(23)	28
Goodwill	18	45
Purchase price (including capitalised costs)	42	73
Cash and cash equivalents	(42)	–
Cash consideration	–	73

On October 9, 2006 Smartphone SP (Proprietary) Limited, acquired a 100% shareholding of Cointel V.A.S. (Proprietary) Limited from Vodacom Group (Proprietary) Limited for R300 million (Group share: R150 million).

As a result of the sale of Cointel V.A.S. (Proprietary) Limited from Vodacom Group (Proprietary) Limited to Smartphone SP (Proprietary) Limited, R38 million (Group share: R19 million) goodwill was realised, which resulted in the realisation of R17.4 million profit (Group share: R8.7 million) on consolidation.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

35. Acquisition and disposals of subsidiaries, joint ventures and minority shareholders' interests (continued)

35.1 Acquisitions (continued)

By the Group's subsidiaries

One Africa Television (Proprietary) Limited ('One Africa Television') and Downlink (Proprietary) Limited ('Downlink')

On August 13, 2007 Telkom Media acquired a 49% shareholding in One Africa Television and Downlink respectively, two companies registered in the Republic of Namibia, for a total cost of R18 million. Telkom Media has management control and therefore the entities are consolidated into Telkom Media Group.

Purchase price	18
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The purchase price allocation will be completed in the 2009 financial year as not all the information was available at year end to finalise it. Goodwill has not been tested for impairment as the accounting is provisional and has not been allocated to the various cash-generating units.

Multi-Links Telecommunications Limited ('Multi-Links Telecommunications')

On May 1, 2007 Telkom acquired a 75% shareholding in Multi-Links Telecommunications through Telkom International, a wholly owned South African subsidiary, for a total cost of R1,985 million.

Multi-Links Telecommunications is a Nigerian Private Telecommunications Operator with a Unified Access License providing fixed, mobile, data, long distance and international telecommunications services throughout Nigeria. Multi-Links is domiciled and incorporated in Nigeria.

At this stage Telkom has not taken a decision to dispose of any operations as a result of the combination.

At acquisition date the company was not IFRS compliant and thus no fair value information based on IFRS was available.

The purchase price allocation has been completed during the current year under review, and has resulted in goodwill being adjusted since the interim results has been released.

The following intangible assets were identified and valued at the end of the year:

Customer relationship	61
Licence	36
Brand	105

Fair value of intangible assets	202
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Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
35. Acquisition and disposals of subsidiaries, joint ventures and minority shareholders' interests (continued)			
35.1 Acquisitions (continued)			
By the Group's subsidiaries (continued)			
Multi-Links Telecommunications Limited ('Multi-Links Telecommunications') (continued)			
The fair value of the assets and liabilities acquired were determined as follows:			
Net assets acquired (excluding fair value of intangible assets)			236
Fair value of intangible assets			202
Less: Contingencies recognised			(35)
Less: Deferred taxation raised on intangible assets			(65)
Fair value of net assets acquired			338
Less: Minority interest			(80)
Goodwill			1,727
Purchase price*			1,985
*The purchase price was settled in cash.			
Revenue amounting to R845 million and a profit of R23 million are included in the consolidated annual financial statements, since acquisition date.			
The factors that lead to goodwill recognised is a combination of premium paid and intangible assets not separately identifiable at acquisition.			
35.2 Disposals of Subsidiaries			
By the Group's 50% joint venture, Vodacom			
Ithuba Smartcall (Proprietary) Limited ('Ithuba Smartcall')			
On September 3, 2007 the Group disposed of its 52% interest in Ithuba Smartcall. The fair value of the assets and liabilities disposed of was less than R1 million.			
Stand 13 Eastwood Road Dunkeld (Proprietary) Limited			
On September 3, 2007 the Group disposed of its 100% interest in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited. The fair value of the assets and liabilities disposed were as follows:			
Carrying amount of net assets disposed of:			4
Gain on disposal			4
Selling price			8
The consideration was received on September 6, 2007.			

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

36. Undrawn borrowing facilities and guarantees

36.1 Rand denominated facilities and guarantees

Telkom has general banking facilities of R5,935 million with R41 million utilised at March 31, 2008. The facilities are unsecured. When drawn bear interest at a rate linked to prime, have no specific maturity date and are subject to annual review. R2,000 million of these undrawn facilities were committed

The Group exposure is 50% of the following items:

Vodacom has Rand denominated credit facilities totalling R5,788 million with R2,456 million utilised as at March 31, 2008. The facilities that are uncommitted can also be utilised for loans to foreign entities and are subject to review at various dates (usually on an annual basis). Certain of the facilities are still subject to the Group's final acceptance.

Guarantor	Details	Beneficiary	Currency	2006 Rm	2007 Rm	2008 Rm
Vodacom (Proprietary) Limited	All guarantees individually less than R2 million.	Various		3	3	2
Vodacom Service Provider Company (Proprietary) Limited	All guarantees individually less than R2 million.	Various		3	3	3
Vodacom Service Provider Company (Proprietary) Limited	Guarantee in respect of receipt of independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in RSA. Renewable annually.	SA Insurance Association for benefit of insurers		21	27	32
Smartcom (Proprietary) Limited	Guarantees for salary bank account and debit orders.	Various		3	3	–
Cointel VAS (Proprietary) Limited	Guarantees for operating lease and debit orders.	Various		–	1	–
Vodacom (Proprietary) Limited	Letter of undertaking in respect of land.	Attorneys		–	7	17
				30	44	54

36.2 Foreign denominated facilities and guarantees

Telkom SA Limited	Punctual payment and performance by Africa Online under the Trade Finance Facility. Agreement to various banks.	Various	USD3 million	–	–	23
First Bank of Nigeria Plc (on behalf of Mutli-links Telecommunications Limited)	Guarantee on lending facility from Export Bank of Canada to Nortel Networks for the purchase of Telecommunications equipment phases – 9a, 9b, 9c and 9d.	Nortel Networks Canada	USD18 million	–	–	147
Zenith Bank Plc (on behalf of Mutli-links Telecommunications Limited)	Guarantee payment to Gilat Satcom Limited in respect of interconnect service (standby letter of credit).	Gilat Satcom Limited	USD0.1 million	–	–	1
Zenith Bank Plc (on behalf of Mutli-links Telecommunications Limited)	Support the bid award of the contract for the submission of the proposal to provide wire Nigerian Telecommunications Services.	NCC	USD0.1 million	–	–	1
Zenith Bank Plc (on behalf of Mutli-links Telecommunications Limited)	Issued in favour of Huawei Technology Investment Company Limited for the supply of core telecommunications services.	Huawei Technology Investment Company Limited	USD31 million	–	–	250
Zenith Bank Plc (on behalf of Mutli-links Telecommunications Limited)	Issued in favour of Huawei Technology Investment Company Limited for the supply of core telecommunications services.	Huawei Technology Investment Company Limited	USD11 million	–	–	88
				–	–	510

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

36. Undrawn borrowing facilities and guarantees (continued)

36.2 Foreign denominated facilities and guarantees (continued)

The Group exposure is 50% of the following items:

Vodacom Congo (RDC) s.p.r.l. has various facilities of USD19 million of which USD9 million was fully utilised as at March 31, 2008. Vodacom International Limited has a revolving term loan of USD180 million which was fully utilised at March 31, 2008. Vodacom Lesotho (Proprietary) Limited has overdraft facilities with various banks of M40 million of which MNil was utilised at March 31, 2008. VM, S.A.R.L. has an overdraft facility of USD0.5 million of which USDNil million was utilised at March 31, 2008. Foreign currency term facilities are predominantly US Dollar based, at various maturities and are utilised for bridging and short-term working capital needs.

Guarantor	Details	Beneficiary	2006 Currency Rm	2007 Rm	2008 Rm
Nedbank on behalf of Vodacom (Proprietary) Limited	Unsecured standby letters of credit	Alcatel CIT	€Nil (2007: Nil; 2006: €11 million)	86	–
Vodacom Group (Proprietary)Limited	Guarantees issued for the obligation of Vodacom International Limited's term loan facility*#	Standard Bank Plc and RMB International (Dublin) Limited	USD180 million (2007: USD180 million; 2006: USD180 million)	1,114	1,312
Vodacom International Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.*	Alcatel CIT	€Nil (2007: €Nil; 2006: €5 million)	38	–
			1,238	1,312	1,463

* Foreign denominated guarantees amounting to R1,463 million (2007: R1,312 million; 2006: R1,152 million) issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the consolidated balance sheet.

The Group is in compliance with the covenants attached to the term loan facility.

Companies within the Group have provided the following guarantees:

Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

	2006 Rm	2007 Rm	2008 Rm
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37. Commitments

Capital commitments authorised	10,265	11,167	15,198
Fixed-line	6,500	7,000	7,000
Mobile	3,746	4,159	5,211
Other	19	8	2,987
Commitments against authorised capital expenditure	842	1,099	3,504
Fixed-line	197	506	652
Mobile	642	591	800
Other	3	2	2,052
Authorised capital expenditure not yet contracted	9,423	10,068	11,694
Fixed-line	6,302	6,494	6,348
Mobile	3,104	3,568	4,411
Other	17	6	935

Capital commitments comprise of commitments for property, plant and equipment and software included in Intangible assets.

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

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

37. Commitments (continued)

2010 FIFA World Cup Commitments

The FIFA World Cup commitments is an executory contract which requires Telkom to develop the fixed-line components of the necessary telecommunications infrastructure needed to broadcast this event to the world. This encompasses the provisioning of the fixed-line telecommunications related products and services and, where applicable, the services of qualified personnel necessary for the planning, management, delivery, installation and de-installation, operation, maintenance and satisfactory functioning of these products and services. Furthermore as a National Supporter, Telkom owns a tier 3 sponsorship that grants Telkom a package of advertising, promotional and marketing rights that are exercisable within the borders of South Africa. The total value of the commitment for the year ended March 31, 2008 amounted to USD35 million.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Operating lease commitments and receivables				
2008				
Buildings	2,061	341	913	807
Rental receivable on buildings	(266)	(94)	(169)	(3)
Transmission and data lines	709	134	490	85
Vehicles	1,444	233	1,211	–
Equipment	13	10	3	–
Sport and marketing contracts	680	282	395	3
Customer premises equipment receivables	(84)	(45)	(39)	–
Total	4,557	861	2,804	892
2007				
Buildings	1,465	289	771	405
Rental receivable on buildings	(269)	(91)	(174)	(4)
Transmission and data lines	262	68	159	35
Vehicles	573	568	5	–
Equipment	23	6	17	–
Sport and marketing contracts	441	164	275	2
Customer premises equipment receivables	(57)	(30)	(27)	–
Total	2,438	974	1,026	438
2006				
Buildings	890	240	640	10
Rental receivable on buildings	(180)	(56)	(122)	(2)
Transmission and data lines	131	28	102	1
Vehicles	996	498	498	–
Equipment	35	20	15	–
Sport and marketing contracts	567	149	418	–
Total	2,439	879	1,551	9

Customer premises equipment receivable

The disclosed information relates to those arrangements which were assessed to be operating leases in terms of IAS17.

The comparative information for 2006 is not disclosed as it was not considered to be material.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

37. Commitments (continued)

Operating leases

The Group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises are ten years with other leases signed for five and three years. The bulk of non-equipment related premises are for leases of three years to ten years. The majority of the leases normally contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 6% to 15%.

Penalties in terms of the lease agreements are only payable should Telkom vacate a premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which Telkom has no further use, no possibility of sub-lease and no option to cancel, are provided for in full and included in other provisions.

The master lease agreement for vehicles was for a period of five years and then extended for an additional three years which resulted in the lease expiring on March 31, 2008. During August 2007 new terms were negotiated and approved and as a result the operating lease commitments for vehicles are based on the new agreement which expires on March 31, 2013. In accordance with this agreement Telkom is not allowed to lease any similar vehicle as specified in the contract from any other service provider during the five year period except for the rentals at airport which are utilised in cases of subsistence and travel as well as vehicles which are not part of the agreement.

The agreement is structured to have no lease increases on vehicles that are continually leased from the lessor. If a vehicle is, however, replaced by a new similar vehicle, the lease costs of the newest vehicle, will increase by the Consumer Price Index. All leased vehicles are, however, subject to any variance in the interest rate fluctuations and are adjusted as and when the adjustments are announced by the South African Reserve Bank. The leases of individual vehicles are renewed annually.

The increase in the current year transmission and data line is attributable to Vodacom increasing their operating leases.

The master lease agreements for office equipment are with two suppliers with initial periods of 36 months effective from November 25, 2005. In terms of these agreements the leases of individual equipment shall be valid for 36 months at a fixed fee for the entire period.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Finance lease commitments				
2008				
Building				
Minimum lease payments	2,182	161	871	1,150
Finance charges	(1,029)	(43)	(603)	(383)
Finance lease obligation	1,153	118	268	767
Equipment				
Minimum lease payments	16	4	12	–
Finance charges	(2)	–	(2)	–
Finance lease obligation	14	4	10	–
Vehicles*				
Minimum lease payments	242	48	194	–
Finance charges	(59)	(20)	(39)	–
Finance lease obligation	183	28	155	–
2007				
Building				
Minimum lease payments	2,412	227	853	1,332
Finance charges	(1,198)	(166)	(540)	(492)
Finance lease obligation	1,214	61	313	840
Equipment				
Minimum lease payments	6	–	6	–
Finance charges	–	–	–	–
Finance lease obligation	6	–	6	–

* The finance lease commitments disclosed above are future commitments commencing April 1, 2008. Thus not recognised as interest-bearing debt.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
37. Commitments (continued)				
Finance lease commitments (continued)				
2006				
Building				
Minimum lease payments	2,644	217	908	1,519
Finance charges	(1,372)	(172)	(587)	(613)
Finance lease obligation	1,272	45	321	906

Finance leases

Swap bodies are detachable parts of the vehicle designed according to Telkom specifications, which are used as mobile storage.

Finance leases on vehicles relates to the lease of Swap bodies. The lease term for the Swap bodies which have been classified as finance leases and vehicles which have been classified as operating leases has been renewed from April 2008 to April 2013.

A major portion of the finance leases relates to the sale and lease-back of the Group's office buildings. The lease term negotiated for the buildings is for a period of 25 years ending 2019. The minimum lease payments are subject to an annual escalation of 10% p.a. Telkom has the right to sublet part of the buildings. In case of breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.

Finance charges accruing on one of the Group's building leases exceed the lease payments for the next three years. Minimum lease payments for the next five years do not result in any income accruing to the Group.

Finance leases on equipment relates to the reclassification of operating leases as the result of Telkom adopting IFRIC4, which requires assessment of whether an arrangement contains a lease. These leases are classified as finance leases in terms of IAS17 since they transfer significant risks and rewards of ownership to Telkom.

Finance leases on equipment mainly relates to office equipment. The lease term negotiated for the finance leases is for a period of 3 years ending in 2011.

Other

The group exposure is 50% of the following items:

Global Alliance fees

The Vodacom Group pays annual fees from February 18, 2005 for the services provided by Vodafone Group Plc. The fee is calculated as a percentage of revenue and amounts to R304 million (2007: R250 million; 2006: R175 million).

Retention incentives

The Vodacom Group has committed a maximum of R1,317 million (2007: R652 million; 2006: R456 million) in respect of customers already beyond their normal 24 month contract period, but who have not yet upgraded to new contracts, and therefore have not utilised the incentive available for such upgrades. The Group has not recognised the liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

Activation bonuses

The Vodacom Group has a potential liability in respect of activation bonuses payable related to starter packs sold which have not yet been validated. The exposure is estimated at approximately R14 million (2007: R8 million; 2006: R9 million).

Activation commissions

The Vodacom Group has a commitment to a maximum of R119 million (2007: R116 million; 2006: R142 million) in terms of activation commissions on gross prepaid connections in excess of the legal liability recorded in the financial statements.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

38. Contingencies

Third parties	35	28	27
Fixed-line	27	19	18
Mobile	3	4	4
Other	5	5	5

Third parties

These amounts represent sundry disputes with suppliers that are not individually significant and that the Group does not intend to settle.

Supplier dispute

Expenditure of R594 million was incurred up to March 31, 2002 for the development and installation of an integrated end-to-end customer assurance and activation system to be supplied by Telcordia. In the 2001 financial year, the agreement with Telcordia was terminated and in that year, Telkom wrote off R119 million of this investment. Following an assessment of the viability of the project, the balance of the Telcordia investment was written off in the 2002 financial year. During March 2001, the dispute was taken to arbitration where Telcordia was seeking approximately USD130 million plus interest at a rate of 15.5% per year which was subsequently increased to USD172 million plus interest at a rate of 15.5% per year in the 2007 financial year for money outstanding and damages. The claims have since been revised by Telcordia to USD128 million.

The parties have since reached an advanced stage in their preparation to determine the quantum payable by Telkom to Telcordia. Following the ruling by the Constitutional Court, two hearings were held at the International Dispute Resolutions Centre (IDRC). The first hearing was held in London on May 21, 2007 and was a 'directions hearing' in terms of which the parties consented to a ruling by the arbitrator setting out a consolidated list of proposals and issues to form part of the quantum hearing.

In the second hearing in London at the IDRC on June 25 and 26, 2007 the arbitrator set out a list of issues for determination of the damages.

At a subsequent hearing during July 2007 in London the arbitrator ruled that the rate in terms of the Prescribed Rate of Interest will apply on both damages and debt claims, permitted Telcordia to a further amount to Telcordia's existing claims, permitted VAT to be claimed on Telcordia's claim, where applicable, and set out an agreed timetable for the future conduct of proceedings.

A mediation took place, without success, during February and April 2008.

In the interim the parties have agreed to the appointment by the arbitrator of a third party expert to deal with the technical issues in relation to the software that was required to be provided by Telcordia, who will make a recommendation to the arbitrator in dealing with the amount of the claims.

The arbitrator confirmed certain dates for the compliance of preceudal steps to be taken by all the parties before final dates could be agreed upon for a hearing of the evidence on the quantum.

A provision has been raised based on management's best estimate of the probable payments in this regard.

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	2006	2007	2008
	Rm	Rm	Rm

Supplier dispute liability included in current portion of provisions — 527 569*

For the net increase in the provision refer to note 28.

* USD70 million.

Competition Commission

If found guilty Telkom could be required to cease these practices, divest these businesses and a maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The Competition Commissions has to date not imposed the maximum penalty on any offender.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

38. Contingencies (continued)

Competition Commission (continued)

This applies to the following cases:

Independent Cellular Service Provider Association of South Africa ('ICSPA')

This is a complaint in terms of the Competition Act, which was brought in 2002. ICSPA alleged that Telkom had entered into contracts with large corporations, providing large discounts with the effect of the discouraging the corporates from using the 'premicell' device installed by their members. ICSPA alleged various contraventions of the Act. Telkom provided the Competition Commission with certain information requested. Telkom also referred the Competition Commission to its High Court application in respect of utilisation of the 'premicell' device. The Competition Commission declined to refer the matter to the Competition Tribunal. ICSPA then referred the matter to the Competition Tribunal on September 18, 2003 but has done nothing since, notwithstanding that Telkom filed its answering affidavit on November 28, 2003. ICSPA has taken no further action since then.

The South African Value Added Network Services ('SAVA')

On May 7, 2002 SAVA, an association of Value Added Network Services (VANS) providers, filed complaints against Telkom at the Competition Commission Competition Act, 89 of 1998, alleging, among other things, that Telkom was abusing its dominant position in contravention of the Competition Act, 89 of 1998, and that it was engaged in price discrimination. The Competition Commission determined, among other things, that several aspects of Telkom's conduct contravened the Competition Act, 89 of 1998, and referred certain of the relevant complaints to the Competition Tribunal for adjudication. The referred complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidised competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers.

Telkom brought an application for review against the Competition Commission and the Competition Tribunal in the High Court, in respect of the decision by the Competition Commission to refer the matters to the Competition Tribunal. Telkom is of the view that the Competition Tribunal does not have jurisdiction to adjudicate these matters and argued that the Independent Communications Authority of South Africa ('ICASA') has the requisite jurisdiction. Only the Competition Commission opposed the application and filed an answering affidavit.

The application for review was heard on April 24 and 25, 2008. The High Court Judge agreed with Telkom's arguments and set aside the decision of the Competition Commission to refer the SAVA complaints (and the Omnilink complaint against Telkom discussed below) to the Competition Tribunal. The decision was made based on three grounds:

- The Competition Commission failed to comply with the peremptory provisions of the memorandum of understanding between the Competition Commission and ICASA;
- The referral was out of time;
- The Competition Commission's reliance on a report by the Link Centre created a reasonable apprehension of bias, since some of the complainants contribute financially to the Link Centre and the Link Centre's advisory board includes employees of the complainants in the SAVA complaints.

The Judge did not make a decision on the matter of jurisdiction (whether ICASA or the Competition Tribunal has the right to rule on the competition matters in the communications industry). To date, the Competition Commission has not appealed the High Court ruling.

Omnilink

Omnilink alleged that Telkom was abusing its dominance by discriminating in its price for Diginet services as against those charged to VANS and the price charged to customers who apply for a Telkom IVPN solution. The Competition Commission conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the Competition Tribunal for adjudication. This matter is currently being dealt with together with the SAVA matter discussed above.

Orion/Telkom (Standard Bank and Edcon): Competition Tribunal

In April 2003, Orion filed a complaint against Telkom, Standard Bank, and Edcon at the Competition Commission concerning Telkom offering discounts on public switched telecommunication services to corporate customers. In terms of the rules of the Competition Commission, the Competition Commission, who acts as an investigator, has one year to investigate the complaint. Orion simultaneously with the filing of the complaint, also filed an application against Telkom, Standard Bank and Edcon at the Competition Tribunal, for an interim order interdicting and restraining Telkom from offering Orion's corporate customers reduced rates associated with Telkom's Cellsaver discount plan.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

38. Contingencies (continued)

Competition Commission (continued)

Orion/Telkom (Standard Bank and Edcon): Competition Tribunal (continued)

The Competition Commission completed its investigation and decided that there was no prima facie evidence on any contravention of the Competition Act. Orion however referred the matter to the Competition Tribunal in terms of section 51 of the Competition Act, which allows for parties to refer matters to the Competition Tribunal themselves.

Telkom has not yet filed its answering affidavit in the main complaint before the Competition Tribunal. To date there has been no further developments on this matter.

The Internet Service Providers Association ('ISPA')

In December 2005, ISPA, an association of Internet Service Providers ('ISPs'), filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. The complaints deal with the cost of access to the South African Internet Exchange ('SAIX'), the prices offered by Telkom for Internet, the alleged delay in provision of facilities to ISP's and the alleged favourable installation timelines offered to Telkom Internet customers.

The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint. Telkom has provided the Competition Commission with the information and is awaiting the Commission's response.

M-Web and Internet Solutions ('IS')

On June 29, 2005 M-Web and IS jointly lodged a complaint with the Competition Commission against Telkom and also requested interim relief at the Competition Tribunal. The complaint at the Competition Commission mainly deals with Telkom's pricing for ADSL retail products and its IP Connect products, the termination of the peering link between Telkom and IS, the wholesale pricing of SAIX bandwidth for ADSL users of other ISP's, the architecture of the ADSL access route and the manner in which ISP's can only connect to the ESR via IP Connect as well as alleged excessive pricing for bandwidth on the international undersea cable.

The application for interim relief at the Competition Tribunal dealt with allegations that Telkom should maintain the peering link between IS and Telkom in terms of the current peering agreement, and demanded that Telkom treat traffic generated by the ADSL customers of M-Web as traffic destined for the peering link and that Telkom upgrades the peering link to accommodate the increased ADSL traffic emanating from M-Web and maintain a maximum of 65% utilisation.

Telkom filed its answering affidavit, and is awaiting IS/M-Web's replying affidavit. Since then Telkom has entered into a new peering agreement with IS and has responded to numerous documentation and information requests. To date there has been no further movement on this matter, either in the filing of a replying affidavit by IS/M-Web in the interim relief application or in the investigation of the matter by the Competition Commission.

M-Web

On June 5, 2007 M-Web brought an application against Telkom for interim relief at the Competition Tribunal with regard to the manner in which Telkom provides wholesale ADSL internet connections. M-Web requested the Competition Tribunal to grant an order of interim relief against Telkom to charge M-Web a wholesale price for the provision of ADSL internet connections which is not higher than the lowest retail price. M-Web further applied for an order that Telkom implement the migration of end customers from Telkom PSTS (ADSL access) to M-Web without interruption of the service. Although Telkom raised the objection that the Competition Tribunal does not have jurisdiction to hear the matter in its answering affidavit filed at the Competition Tribunal. Telkom still had to 'plead over' as to the merits of the matter. Telkom also filed an application in the Transvaal Provincial Division of the High Court on July 3, 2007 for an order declaring that the Competition Tribunal does not have jurisdiction to hear the application made to it by M-Web.

This application has been set down for hearing during the first quarter of the 2009 financial year. The parties have entered into settlement negotiations, which resulted in the withdrawal of the interim relief application by M-Web as well as the withdrawal of the jurisdictional challenge by Telkom. The parties are in further negotiations.

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Salary negotiations

Telkom is a party to a collective agreement on substantive matters covering the terms and conditions of employment of its fixed-line unionised employees and other non-management employees in Telkom's bargaining unit with ATU and CWU for the period from April 1, 2006 to March 31, 2009. The long term substantive agreement provides for the re-opening of negotiations in the event the consumer price index varies from the April 2006 level of 3.7% by more than 3%. Due to inflation increasing beyond this amount, Telkom re-opened the negotiations in December 2007 and thus far, we have not managed to reach settlement. Given the current economic conditions, the various Trade Union Federations especially COSATU have requested a double-digit increase. If Telkom's unable to implement workforce reductions as necessary or outsourcing as planned, particularly as a result of increased competition, or experience significant labour disputes, work stoppages, increased employee expenses as a result of collective bargaining or compliance with labour laws, Telkom's business operations could be disrupted and our net profit could be reduced.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

38. Contingencies (continued)

Negative working capital ratio

At each of the financial periods ended March 31, 2008, 2007 and 2006 Telkom had a negative working capital ratio. A negative working capital ratio arises when current liabilities are greater than current assets. Current liabilities are intended to be financed from operating cash flows, new borrowings and borrowings available under existing credit facilities.

The Group's exposure is 50% of the following items:

Equity investment

The Vodacom Group through Vodacom Ventures (Proprietary) Limited has acquired a 35% equity stake in a X-Link Communications (Proprietary) Limited R12 million, which is subject to Competition Commission approval. The Board of Vodacom Group (Proprietary) Limited has also approved the exercise of the option to acquire a further 15.5% equity investment in WBS Holdings (Proprietary) Limited should certain suspensive conditions be fulfilled.

Customer registration

The telecommunications industry in the Democratic Republic of the Congo is subject to a recently promulgated ministerial decree requiring the registration of the entire customer base of all network operators. This decree requires prescribed particulars of all customers to be obtained and maintained by June 30, 2008. The sanction for non-compliance by any operator who has not identified its customers in accordance with the requirements of this decree within three months from March 28, 2008 could result in:

- a fine equivalent to between USD5 thousand and USD10 thousand per customer; and
- suspension of the licence for a period not exceeding three months in the event of repetition; and
- suspension of the licence in the event of a likely disturbance of law and order/safety.

The Group is making every effort to obtain the required information but management believes it is unlikely that the Group will meet all the requirements as prescribed in this decree by June 30, 2008. Management is engaging with the relevant ministries on this matter and are presently unable to reliably assess the potential impact on the Group in the event of non-compliance with this decree.

The Group would be entitled to 50% of the following item:

Contingent Asset

Litigation is being instituted for the recovery of certain fees paid by the Vodacom Group. The information usually required by IAS37 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that a claim may be successful and that the amount recovered could be significant.

39. Directors' interest

DD Tabata, one of Telkom's Board members is a director and shareholder of Vuwa Investments (Proprietary) Limited which acquired a 40% interest in SAIL Group Limited, with effect from October 1, 2006. SAIL Group Limited is a sports marketing company that does business with Telkom. Telkom paid R17,094,884 for the financial year for these goods and services (2007: R18,682,568). The outstanding creditor's balance in Telkom at March 31, 2008 was R855,000 (2007: R151,924). Vodacom paid R592,474,403 for goods and services from the SAIL Group (2007: R599,958,860). The outstanding creditor's balance in Vodacom as at March 31, 2008 was R21,260,584 (2007: R18,951,705). Vuwa Investments is a consortium member of Amandla Omoya, who has bid to acquire a 10% stake in Vodacom.

SL Arnold, RJ Huntley, E Spio-Garbrah, KST Matthews and VB Lawrence, five of Telkom's board members, are the South African Government's representatives on Telkom's Board of Directors. At March 31, 2008 the Government held 39.42% (2007: 38.83%; 2006: 37.99%) of Telkom's shares.

As at March 31, 2008 A Rhoda (B Molefe resigned March 5, 2008; T. Mahloele resigned on January 30, 2008) was the Public Investment Corporation ('PIC') representative on Telkom's Board of Directors. As at March 31, 2008 the PIC held 15.23% (2007: 15.27%; 2006: 15.73%) of Telkom's shares. On July 3, 2008 A Rhoda resigned and was replaced by B Molefe.

Number of shares	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
Directors shareholding				
2008				
Executive RJ September	7,155	—	—	—
Total	7,155	—	—	—
2007				
Non-executive TF Mosololi	455	—	—	—
Total	455	—	—	—

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

Number of shares	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
39. Directors' interest (continued)				
Directors shareholding (continued)				
2006				
Non-executive				
NE Mtshotshisa	–	–	–	88
TF Mosololi	455	–	–	–
Total	455	–	–	88

The directors' shareholding did not change between the balance sheet date and the date of issue of the financial statements.

	2006 Rm	2007 Rm	2008 Rm
Directors' emoluments	15	7	36
Executive			
For other services	12	4	31
Non-executive			
For services as directors	3	3	5

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Total R
2008					
Emoluments per director:					
Non-executive	4,633,933	–	–	–	4,633,933
SL Arnold	1,124,373	–	–	–	1,124,373
B du Plessis	393,967	–	–	–	393,967
MJ Lamberti	–	–	–	–	–
PSC Luthuli	502,117	–	–	–	502,117
TD Mahloele	357,684	–	–	–	357,684
KST Matthews	501,217	–	–	–	501,217
TF Mosololi	174,960	–	–	–	174,960
M Mostert#	229,433	–	–	–	229,433
DD Tabata	250,583	–	–	–	250,583
YR Tenza	305,633	–	–	–	305,633
PL Zim	5,333	–	–	–	5,333
B Molefe	20,497	–	–	–	20,497
A Rhoda	14,286	–	–	–	14,286
RJ Huntley	193,833	–	–	–	193,833
E Spio-Garbrah**	273,841	–	–	–	273,841
Dr. VB Lawrence**	286,176	–	–	–	286,176
Executive	–	14,489,833	3,436,308	13,244,896	31,171,037
RJ September*	–	2,453,757	3,436,308	13,218,772	19,108,837
CEO		1,016,524	3,436,308	10,438,538	14,891,370
Acting CEO		1,437,233	–	2,780,234	4,217,467
LRR Molotsane*	–	12,036,076	–	26,124	12,062,200
Total emoluments – paid by Telkom	4,633,933	14,489,833	3,436,308	13,244,896	35,804,970

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Total R
39. Directors' interest (continued)					
Directors' emoluments					
2007					
Emoluments per director:					
Non-executive	2,641,168	–	–	–	2,641,168
NE Mtshotshisa	463,050	–	–	–	463,050
SL Arnold	353,719	–	–	–	353,719
TCP Chikane	32,670	–	–	–	32,670
B du Plessis	213,367	–	–	–	213,367
PSC Luthuli	205,417	–	–	–	205,417
TD Mahloeie	166,667	–	–	–	166,667
KST Matthews	109,643	–	–	–	109,643
TF Mosololi	214,417	–	–	–	214,417
M Mostert	232,417	–	–	–	232,417
DD Tabata	175,367	–	–	–	175,367
YR Tenza	321,767	–	–	–	321,767
PL Zim	152,667	–	–	–	152,667
Executive	–	2,272,785	–	1,653,202	3,925,987
LRR Molotsane*	–	2,272,785	–	1,653,202	3,925,987
Total emoluments – paid by Telkom	2,641,168	2,272,785	–	1,653,202	6,567,155
2006					
Emoluments per director:					
Non-executive	2,969,158	–	–	–	2,969,158
NE Mtshotshisa	759,500	–	–	–	759,500
TCP Chikane	181,022	–	–	–	181,022
B du Plessis	254,391	–	–	–	254,391
PSC Luthuli	168,357	–	–	–	168,357
TD Mahloeie	223,227	–	–	–	223,227
TF Mosololi	230,809	–	–	–	230,809
M Mostert	308,272	–	–	–	308,272
A Ngwezi	47,727	–	–	–	47,727
DD Tabata	323,022	–	–	–	323,022
YR Tenza	349,022	–	–	–	349,022
PL Zim	123,809	–	–	–	123,809
Executive	–	2,186,460	7,070,262	2,990,865	12,247,587
LRR Molotsane*	–	1,250,747	3,442,573	909,675	5,602,995
SE Nxasana	–	935,713	3,627,689	2,081,190	6,644,592
Total emoluments – paid by Telkom	2,969,158	2,186,460	7,070,262	2,990,865	15,216,745

* Included in fringe and other benefits is a pension contribution for LRR Molotsane of R4,690 (2007: R295,462; 2006: R162,597), as well as a pension contribution for RJ September of R280,261 paid to the Telkom Retirement Fund, and a payment made in terms of a restraint of trade agreement. Included in remuneration for LRR Molotsane is a payment pursuant to a settlement agreement with Telkom. LRR Molotsane resigned from Telkom in April 2007 and RJ September was appointed CEO during November 2007.

** Foreign Directors.

In the absence of an internal corporate finance division, and pending the structuring and staffing thereof, the Telkom Board resolved that it was in the best interest of the company and shareholders to deploy the highest quality skills currently resident in Telkom, to evaluate, structure and make recommendations to the Board on major transactions.

During the year M Mostert led all efforts in this regard and was remunerated accordingly. Moreover in compliance with the principles of good governance, the Board took legal advice and established that there was not conflict of interest arising out of his involvement in the transaction evaluated.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
40. Segment information			
Eliminations represent the inter-segmental transactions that have been eliminated against segment results.			
Business Segment			
Consolidated operating revenue	47,625	51,619	56,285
Fixed-line	31,832	32,345	32,572
Elimination	(737)	(772)	(830)
Mobile	17,021	20,573	24,089
Elimination	(1,435)	(1,494)	(1,519)
Other	952	979	1,993
Elimination	(8)	(12)	(20)
Consolidated other income	480	384	534
Fixed-line	465	334	497
Elimination	(45)	(46)	(86)
Mobile	50	42	56
Elimination	—	—	—
Other	10	54	67
Elimination	—	—	—
Consolidated operating expenses	33,428	37,533	42,337
Fixed-line	22,454	24,083	24,962
Elimination	(1,443)	(1,495)	(1,709)
Mobile	12,635	15,185	17,898
Elimination	(710)	(755)	(805)
Other*	564	589	2,115
Elimination	(72)	(74)	(124)
Consolidated operating profit	14,677	14,470	14,482
Fixed-line	9,843	8,596	8,107
Elimination	661	677	793
Mobile	4,436	5,430	6,247
Elimination	(725)	(739)	(714)
Other	398	444	(55)
Elimination	64	62	104
Consolidated investment income	397	235	197
Fixed-line	2,720	3,041	3,975
Elimination	(2,398)	(2,850)	(3,832)
Mobile	64	36	27
Other	11	8	27
Consolidated finance charges	1,223	1,125	1,803
Fixed-line	839	856	1,277
Mobile	384	269	240
Other	—	—	320
Elimination	—	—	(34)
Consolidated taxation	4,523	4,731	4,704
Fixed-line	2,836	2,652	2,630
Mobile	1,542	1,918	2,055
Other	145	161	19

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
40. Segment information (continued)			
Business Segment (continued)			
Minority interests	139	203	197
Mobile	58	109	73
Other	81	94	124
Profit attributable to equity holders of Telkom	9,189	8,646	7,975
Fixed-line	8,888	8,129	8,175
Elimination	(1,737)	(2,173)	(3,039)
Mobile	2,516	3,170	3,906
Elimination	(725)	(739)	(714)
Other	183	197	(491)
Elimination	64	62	138
Operating expenses			
Other			2,115
Prior to consolidation adjustments			1,830
Consolidation adjustments			285
Consolidated assets	54,306	57,426	68,259
Fixed-line	43,121	44,224	47,829
Elimination	(1,598)	(1,547)	(1,604)
Mobile	12,263	14,026	16,743
Elimination	(258)	(353)	(278)
Other	905	1,188	5,734
Elimination	(127)	(112)	(165)
Investments	2,963	1,461	1,499
Fixed-line	3,093	1,621	4,917
Elimination	(232)	(341)	(3,607)
Mobile	102	181	176
Other	—	—	13
Other financial assets	275	259	614
Fixed-line	256	230	445
Mobile	19	28	169
Other	—	1	—
Total assets	57,544	59,146	70,372
Consolidated liabilities	15,171	15,951	19,689
Fixed-line	10,285	10,154	11,892
Elimination	(351)	(458)	(495)
Mobile	6,466	7,416	8,871
Elimination	(1,441)	(1,468)	(1,542)
Other	319	374	971
Elimination	(107)	(67)	(8)
Interest-bearing debt	11,123	10,364	15,733
Fixed-line	9,888	9,082	13,362
Mobile	1,234	1,278	1,815
Other	1	4	556
Other financial liabilities	235	229	1,290
Fixed-line	205	58	167
Mobile	30	158	204
Other	—	13	919

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
40. Segment information (continued)			
Business Segment (continued)			
Tax liabilities	1,549	594	323
Fixed-line	1,186	–	7
Mobile	315	556	290
Other	48	38	26
Total liabilities	28,078	27,138	37,035
Other segment information			
Capital expenditure for property, plant and equipment	6,310	8,648	10,108
Fixed-line	3,926	5,545	6,044
Mobile	2,350	3,069	2,475
Other	34	34	1,589
Capital expenditure for intangible assets	1,196	1,598	1,792
Fixed-line	974	1,049	750
Mobile	221	539	985
Other	1	10	57
Depreciation and amortisation	5,714	5,019	5,601
Fixed-line	4,176	3,298	3,470
Mobile	1,498	1,681	1,955
Other	40	40	176
Impairment and asset write-offs	162	296	529
Fixed-line	187	284	262
Mobile	(26)	12	15
Other	1	–	252
Workforce reduction expense – Fixed-line	88	24	3
Geographical segment			
Consolidated operating revenue	47,625	51,619	56,285
South Africa	46,154	49,558	52,668
Other African countries	1,487	2,099	3,653
Eliminations	(16)	(38)	(36)
Consolidated operating profit	14,677	14,470	14,482
South Africa	14,665	14,366	14,343
Other African countries	131	294	245
Eliminations	(119)	(190)	(106)
Consolidated assets	57,544	59,146	70,372
South Africa	56,479	56,797	63,772
Other African countries	2,015	3,489	8,785
Eliminations	(950)	(1,140)	(2,185)
Capital expenditure for property, plant and equipment and intangible assets*	7,506	10,246	11,900
South Africa	7,135	9,459	9,781
Other African countries	371	787	2,119

'South Africa', which is also the country of domicile for Telkom, comprises the segment information relating to Telkom and its South African subsidiaries as well as Vodacom's South African-based mobile communications network, the segment information of its service providers.

Other African countries' comprises Telkom's subsidiaries Africa Online Limited and Multi-Links Telecommunications Limited as well as Vodacom's mobile communications network in Tanzania, Lesotho, the Democratic Republic of the Congo and Mozambique.

* The Geographical segment capital expenditure has been restated to include capital expenditure on intangible assets.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

41. Related parties

Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:

With joint venture:

Vodacom Group (Proprietary) Limited

Related party balances

Trade receivables	48	61	51
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Trade payables	(256)	(353)	(346)
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Related party transactions

Revenue	(710)	(755)	(816)
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Expenses	1,435	1,494	1,525
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Audit fees	3	3	3
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Revenue includes interconnect fees and lease and installation of transmission lines

Expenses mostly represent interconnect expenses

With shareholders:

Government

Related party balances

Trade receivables	247	271	326
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Related party transactions

Revenue	(2,304)	(2,458)	(2,623)
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With entities under common control:

Major public entities

Related party balances

Trade receivables	39	59	28
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Trade payables	(2)	(6)	(25)
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The outstanding balances are unsecured and will be settled in cash in the ordinary course of business

Related party transactions

Revenue	(370)	(435)	(486)
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Expenses	172	238	243
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Rent received	(17)	(29)	(21)
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Rent paid	56	27	22
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Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006	2007	2008
	Rm	Rm	Rm

41. Related parties (continued)

Key management personnel compensation:

(Including directors' emoluments)

Related party transactions

Short-term employee benefits	157	176	231
Post-employment benefits	7	14	12
Termination benefits	12	–	27
Equity compensation benefits	6	8	29
Other long-term benefits	16	27	16

The fair value of the shares that vested in the current year is R12 million (2007: RNil; 2006: R3 million).

Terms and conditions of transactions with related parties

The sales to and purchases from related parties of telecommunication services are made at arms length prices. Except as indicated above, outstanding balances at the year-end are unsecured, interest free (except for interest charged on overdue telephone accounts) and settlement occurs in cash. Apart from the bank guarantee to the amount not exceeding R23 million (USD3 million) provided to Africa Online, there have been no guarantees provided or received for related party receivables or payables. Except as indicated above for the year ended March 31, 2008 the Group has not made any impairment of amounts owed by related parties (2007: RNil; 2006: RNil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

42. Investments in joint ventures

Vodacom Group (Proprietary) Limited ("Vodacom")

Telkom owns 5,000 shares of 1c each at cost. This amounts to a 50% shareholding in Vodacom. Vodacom is an entity that is jointly controlled by its venturers, Telkom and Vodafone Plc through a contractual agreement. Telkom applies joint venture accounting in recognising its investment in Vodacom since it shares control of Vodacom with Vodafone, as set out in the joint venture agreement between the two parties, and has chosen to proportionately consolidate Vodacom on a line-by-line basis. Some of the provisions in the joint venture agreement that indicate how the venturers jointly control the activities of Vodacom are as follows:

- The venturers have the right to appoint the 8 non-executive directors of Vodacom. A further 4 executive directors are appointed to the Board;
- A Directing committee has been established that holds all powers, functions and authority of the directors to act for and on behalf of the Company. This Directing committee constitutes only the directors as appointed by the venturers;
- All decisions made by the Directing committee are mandatorily ratified by the Board of Directors as the ultimate decision lies with the Directing committee; and
- The Directing committee, which is composed entirely of venturer appointed directors, is the ultimate oversight committee of, and controls the activities of, Vodacom.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	2006 Rm	2007 Rm	2008 Rm
42. Investments in joint ventures (continued)			
Total assets	12,384	14,235	17,087
Non-current assets	8,040	10,422	12,234
Current assets	4,344	3,813	4,853
Total liabilities and reserves	(12,384)	(14,235)	(17,087)
Reserves	(4,196)	(4,713)	(5,703)
Minority interests	(142)	(110)	(202)
Non-current liabilities	(932)	(1,906)	(2,394)
Current liabilities	(7,114)	(7,506)	(8,788)
The Group's proportionate share of revenue and expense is as follows:			
Revenue	17,021	20,573	24,089
Net operating expenses	(12,586)	(15,142)	(17,844)
Profit before net finance charges	4,435	5,431	6,245
Net finance charges	(320)	(233)	(212)
Net income before taxation	4,115	5,198	6,033
Taxation	(1,542)	(1,918)	(2,055)
Profit after taxation	2,573	3,280	3,978
Minority interest	(58)	(109)	(73)
Net profit for the year	2,515	3,171	3,905
The Group's proportionate share of cash flow is as follows:			
Cash flow from operating activities	2,251	2,429	2,562
Cash flow from investing activities	(2,395)	(3,292)	(3,751)
Cash flow from financing activities	(53)	(100)	1,617
Net (decrease)/increase in cash and cash equivalents	(197)	(963)	428
Effect of exchange rate on cash and cash equivalents	(8)	29	44
Cash and cash equivalent at beginning of year	1,085	880	(54)
Cash and cash equivalents at end of year	880	(54)	418

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

43. Interest in subsidiaries

Country of incorporation: RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MZ – Mozambique; DRC – Democratic Republic of Congo; MAU – Mauritius; NIG – Nigeria

Nature of business: C – Cellular; S – Satellite; MSC – Management services company; PROP – Property company; OTH – Other.

*Dormant at March 31, 2008.

			Issued share capital			Interest in issued		
	Country of	2006	2007	2008	ordinary share	capital		
	incorporation				2006	2007	2008	
					%	%	%	
Directory advertising (OTH)								
TDS Directory Operations (Proprietary) Limited	RSA	R100,000	R100,000	R100,000	64.9	64.9	64.9	
Data application services (OTH)								
Swiftnet (Proprietary) Limited	RSA	R25,000,000	R5,000,000	R5,000,000	100	100	100	
Other (OTH)								
Q-Trunk (Proprietary) Limited	RSA	R10,001,000	R10,001,000	R10,001,000	100	100	100	
Intekom (Proprietary) Limited	RSA	R10,001,000	R10,001,000	R10,001,000	100	100	100	
Rossal No 65 (Proprietary) Limited	RSA	R100	R100	R100	100	100	100	
Acajou Investments (Proprietary) Limited	RSA	R100	R100	R100	100	100	100	
Telkom Media (Proprietary) Limited	RSA	–	R100	R100	–	75	75	
Africa Online Limited	MAU	–	USD1,000	USD1,000	–	100	100	
Multi-Links Telecommunications								
Limited	NIG	–	–	N300,000,000	–	–	75	
Telkom International (Proprietary) Limited (MSC)	RSA	R100	R100	R100	100	100	100	
The aggregate net (loss)/profit of the subsidiaries is (R186) million (2007: R564 million; 2006: R471 million)								
Vodacom has an interest in the following companies (Group Share: 50% of the interest in ordinary share capital as indicated):								
Cellular network operators								
Vodacom (Proprietary) Limited (C)	RSA	R100	R100	R100	100	100	100	
Vodacom Lesotho (Proprietary) Limited (C)	LES	M4,180	M4,180	M4,180	88.3	88.3	88.3	
Vodacom Tanzania Limited (C)	TZN	TZS10,000	TZS10,000	TZS10,000	65	65	65	
VM, S.A.R.L. (C)	MZ	USD60,000,000	USD60,000,000	USD60,000,000	98	98	90	
Vodacom Congo (RDC) s.p.r.l. (C)	DRC	USD1,000,000	USD1,000,000	USD1,000,000	51	51	51	
Service providers								
Vodacom Service Provider Company (Proprietary)								
Limited (C)	RSA	R20	R20	R20	100	100	100	
Smartphone SP (Proprietary) Limited (C)*	RSA	R20,000	R20,000	R 20,000	51	70	100	
Smartcom (Proprietary) Limited (C)*	RSA	R1,000	R1,000	R 1,000	43.7	61.7	100	
Cointel VAS (Proprietary) Limited (C)*	RSA	R10,204	R10,204	R 10,204	51	70	100	

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

	Country of incorporation	2006	Issued share capital		Interest in issued ordinary share capital		
			2007	2008	2006 %	2007 %	2008 %

43. Interest in subsidiaries (continued)

Other subsidiaries of the Group's
Joint Venture

Vodacom Service Provider Holdings Company

(Proprietary) Limited (MSC)*	RSA	R1,020	R1,020	R1,023	100	100	100
Vodacom Satellite Services (Proprietary) Limited (OTH)*	RSA	R100	R100	R100	100	100	100
GSM Cellular (Proprietary) Limited (OTH)*	RSA	R1,200	R1,200	R1,200	100	100	100
Vodacom Venture No.1 (Proprietary) Limited (OTH)*	RSA	R810	R810	R810	100	100	100
Vodacom Equipment Company (Proprietary) Limited (OTH)*	RSA	R100	R100	R100	100	100	100
Vodacare (Proprietary) Limited (OTH)*	RSA	R100	R100	R100	100	100	100
Vodacom International Holdings (Proprietary) Limited (MSC)	RSA	R100	R100	R100	100	100	100
Vodacom International Limited (MSC)	MAU	USD100	USD100	USD100	100	100	100
Vodacom Properties No.1 (Proprietary) Limited (PROP)	RSA	R100	R100	R100	100	100	100
Vodacom Properties No.2 (Proprietary) Limited (PROP)	RSA	R1,000	R1,000	R1,000	100	100	100
Stand 13 Eastwood Road Dunkeld West (Proprietary) Limited (PROP)	RSA	R100	R100	–	51	70	–
Ithuba Smartcall (Proprietary) Limited (OTH)	RSA	R100	R100	–	26.5	36.4	–
Smartcall Smartlife (Proprietary) Limited (OTH)	RSA	–	R100	–	–	63	–
Vodacom Tanzania Limited (Zanzibar) (OTH)*	TZN	TZS10,000	TZS10,000	TZS10,000	99	99	99
Joycell Shops (Proprietary) Limited (OTH)*	RSA	R100	R100	R100	100	100	100
Marble Gold Investments (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
Vodacom Ventures (Proprietary) Limited (OTH)	RSA	R120	R120	R120	100	100	100
Skyprops 134 (Proprietary) Limited (PROP)	RSA	–	R100	R100	–	100	100

Indebtedness of Telkom subsidiary companies				Rm	Rm	Rm
Swiftnet (Proprietary) Limited	RSA			2	–	–
Intekom (Proprietary) Limited	RSA			3	–	–
Q-Trunk (Proprietary) Limited	RSA			34	30	26
Rossal No 65 (Proprietary) Limited	RSA			–	–	30
Acajou Investments (Proprietary) Limited	RSA			–	–	–
Africa Online Limited	MAU			–	–	74
Multi-Links Telecommunications Limited	NIG			–	–	841
Telkom Media (Proprietary) Limited	RSA			–	–	326

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

44. Significant events

Swiftnet (Proprietary) Limited

Swiftnet is in breach of its license that requires it to have at least 30% of its shares held by black economic empowerment individuals or entities. ICASA has required Swiftnet to remedy the breach of its license, which expired on August 24, 2006. On February 14, 2007 Telkom announced that it had entered into an agreement to sell a 30% stake in Swiftnet to the Radio Surveillance Consortium, a group of empowerment investors, for R55 million following a competitive process run by an independent adviser. The transaction would not have required any financial support or facilitation from Telkom. The transaction received Competition Commission approval on May 28, 2007, but was not approved by ICASA. Swiftnet is currently seeking black economic empowered individuals or entities who would be acceptable to ICASA. Swiftnet met with ICASA on January 28, 2008 to discuss its specific license terms and conditions. Swiftnet has submitted its comments on the draft license terms and conditions to ICASA that ICASA sent to Swiftnet during October 2007. Swiftnet, assisted by Telkom as its sole shareholder, has had a further meeting with ICASA on February 27, 2008. It was decided that the draft amended license that ICASA sent to Swiftnet during October 2007 would not form the basis of the conversion process, but instead the original license issued to Swiftnet in August 1995 would be used as the basis for license conversion. The transaction is still subject to ICASA approval. With regard to shareholder issues, ICASA indicated that there is currently no agreement within the industry as to acceptable BEE shareholding percentages for all licensees. ICASA indicated that the shareholding issue for the Swiftnet license would need to be in line with BEE values applicable to other similar licensees.

Telkom Media (Proprietary) Limited

On August 31, 2006 Telkom created a new subsidiary, Telkom Media (Proprietary) Limited with a Black Economic Empowerment ('BEE') shareholding. ICASA awarded Telkom Media a commercial satellite and cable subscription broadcast license on September 12, 2007.

The BEE shareholders are Videovision Entertainment, MSG Afrika Media and WDB Investment Holdings (Proprietary) Limited. As at March 31, 2008 Telkom had a 75% shareholding in Telkom Media, however, in a recent clarification and refinement of its strategy the board has taken the decision to substantially reduce its investment in Telkom Media (Proprietary) Limited and will be investigating all opportunities to do this in the best interest of Telkom shareholders and all other stakeholders.

Vodacom BBBEE equity deal

Vodacom is in the process of finalising a R7.5 billion BBBEE (Broad-Based Black Economic Empowerment) equity deal whereby strategic business partners, employees and the black public will have an opportunity to share in the success of Vodacom South Africa going forward. Vodacom announced that transaction agreements were signed on June 20, 2008. Telkom is supportive of this transaction but is not in a position to comment on the impact of the proposed transaction on Telkom as the details relating to the transaction are expected to be announced by Vodacom in the third quarter of this calendar year.

Global Telematics SA (Proprietary) Limited

On October 26, 2007 Vodacom Service Provider Company (Proprietary) Limited ('VSPC'), entered into an agreement with Global Telematics SA (Proprietary) Limited ('Global Telematics'). In terms of the agreement GloCell Service Provider Company (Proprietary) Limited ('GSPC'), will cede, transfer and assign its agreements together with all of its obligations and its rights attaching to its customers connected to the Vodacom Network to Global Telematics. GSPC connects all voice contract customers and sells pre-paid packs on behalf of Global Telematics. VSCP will acquire the consolidated customers base from Global Telematics which will consist of active prepaid customers, active contract customers and active telemetry customers, subject to certain suspensive conditions. Once these suspensive conditions are met the transactions will be effective.

Notes to the consolidated annual financial statements (continued)

for the three years ended March 31, 2008

45. Subsequent events

Dividends

The Telkom Board declared an annual dividend of R3,437 million or 660 cents per share on June 6, 2008 payable on July 7, 2008 for shareholders registered on July 4, 2008 which will fully utilise the deferred tax asset on STC credits and result in an additional STC charge of R161 million.

Mobile strategy and unlocking shareholder value

Telkom informed the shareholders that on Friday, May 30, 2008, Telkom received a non-binding proposal from a wholly-owned subsidiary of Vodafone Group Plc ('Vodafone') to acquire a portion of Telkom's stake in Vodacom Group (Proprietary) Limited ('Vodacom') subject to, inter alia, the Company unbundling its remaining stake in Vodacom to Telkom shareholders.

Separately, on Friday, May 30, 2008 Telkom received a letter from a consortium comprising Mvelaphanda Holdings (Proprietary) Limited, affiliated funds of Och-Ziff Capital Management Group and other strategic funders ('the Consortium'), which states that the Consortium is considering making an offer for the entire issued share capital of Telkom. The letter makes it clear that the offer will only be made if a number of pre-conditions are met including, inter alia, confirmation by the Telkom Board that it will unbundle Telkom's entire 50% stake in Vodacom as part of the offer.

The discussions with Vodafone are independent from the approach from the Consortium. The Board of Telkom, in accordance with its fiduciary duties, will evaluate all bona fide offers with a view to maximising shareholder value. No transaction will be entered into without requisite shareholder approvals.

Telkom will advise shareholders of further developments in this regard in due course.

VM, S.A.R.L. trading as Vodacom Mozambique

Effective May 12, 2008 Vodacom International Limited sold 5% of its 90% owned equity investment in Vodacom Mozambique, leaving Vodacom International Limited with an 85% equity investment in Vodacom Mozambique. Certain suspensive conditions are to be met before the transaction will be effective.

Capability Management

Telkom will seek to manage costs by realigning its structure, employees and resources to better match its transforming information, communications and technology business and to improve customer service. The transformation of the communications industry and increasing market and competitive pressure has put communications companies such as Telkom under increasing revenue and expense constraints while being required to improve customer service. As a result a capability management initiative has been launched which is designed to ensure that the capabilities needed to succeed in a converged communications market are established through the optimal utilisation of external as well as internal capabilities, extracting efficiencies, where possible, through scale of a rapidly maturing retail and wholesale market and better organised functional areas in a more deregulated and liberalised communications market. The capability management initiative includes the internal consolidation of certain functional areas and the selection of strategic long-term partners with proven performance for other functional areas.

The areas which are expected to be impacted are the call centers, operations, ancillary services, network service providers, network field operations, network core operations, information technology operations and retail outlets.

Telkom Management Services

On July 2, 2008, Telkom received confirmation from the Companies and Intellectual Property Registration Office for the approval and reservation of a newly set-up company. The approved and reserved name is 'Telkom Management Services'.

Union action

Telkom has received a notice from CWU advising Telkom of its intention to embark on some unspecified industrial action.

Other matters

The directors are not aware of any other matters or circumstances since the consolidated annual financial statements for the financial year ended March 31, 2008 and the date of this report, or otherwise dealt with in the consolidated annual financial statements, which significantly affects the financial position of the Group and the results of its operations.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Telkom Group Limited

We have audited the accompanying consolidated balance sheets of Vodacom Group (Proprietary) Limited and subsidiaries (the "Group") as at March 31, 2008, 2007 and 2006, and the related consolidated income statements, consolidated statements of changes in equity, and consolidated cash flow statements for each of the three years in the period then ended as set out in pages F-101 to F-203. These consolidated annual financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these consolidated annual financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated annual financial statements present fairly, in all material respects, the financial position of Vodacom Group (Proprietary) Limited and subsidiaries at March 31, 2008, 2007 and 2006, and the results of its operations and its cash flows for each of the three years then ended in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in the manner required by the Companies Act of South Africa.

Deloitte & Touche
Registered Auditors
Per Patrick Smit
Johannesburg, South Africa
10 July 2008

CONSOLIDATED INCOME STATEMENTS

for the three years ended March 31, 2008

	Notes	2006 Rm	2007 Rm	2008 Rm
Revenue	1	34,042.5	41,146.4	48,177.8
Other operating income		125.1	119.8	155.6
Direct network operating cost	2	(18,297.2)	(22,439.8)	(26,299.5)
Depreciation	10	(2,651.6)	(2,901.8)	(3,366.0)
Staff expenses		(2,042.1)	(2,372.5)	(2,975.4)
Marketing and advertising expenses		(976.9)	(1,146.4)	(1,264.3)
Other operating expenses		(1,042.7)	(1,063.6)	(1,362.4)
Amortisation of intangible assets	11	(344.2)	(459.4)	(545.2)
Impairment of assets	3	52.8	(22.9)	(29.9)
Profit from operations	4	8,865.7	10,859.8	12,490.7
Finance income	5	129.9	74.5	72.3
Finance costs	6	(246.0)	(369.3)	(681.3)
Gains/(Losses) on remeasurement and disposal of financial instruments	7	(523.1)	(169.0)	185.1
Profit before taxation		8,226.5	10,396.0	12,066.8
Taxation	9	(3,083.7)	(3,836.0)	(4,109.2)
Net profit		5,142.8	6,560.0	7,957.6
Attributable to:				
Equity shareholders		5,026.1	6,342.4	7,811.4
Minority interests		116.7	217.6	146.2
		2006 R	2007 R	2008 R
Basic and diluted earnings per share	35	502,610	634,240	781,140
Dividend per share	35	450,000	540,000	594,000

CONSOLIDATED BALANCE SHEETS



as at March 31, 2008

	Notes	2006 Rm	2007 Rm	2008 Rm
ASSETS				
Non-current assets		16,079.2	20,844.3	24,468.3
Property, plant and equipment	10	13,386.6	17,073.2	19,119.6
Intangible assets	11	1,954.9	2,700.3	4,224.1
Financial assets	12	92.1	209.5	244.2
Deferred taxation	13	297.6	386.1	455.1
Deferred cost		311.2	396.4	333.3
Lease assets	16	36.8	78.8	92.0
Current assets		8,688.6	7,625.9	9,706.9
Deferred cost		451.8	574.8	705.9
Financial assets	12	149.3	207.5	444.9
Inventory	14	454.3	364.3	636.9
Trade and other receivables	15	4,474.0	5,675.0	6,801.1
Lease assets	16	13.1	32.9	140.5
Cash and cash equivalents	34	3,146.1	771.4	977.6
Total assets		24,767.8	28,470.2	34,175.2
EQUITY AND LIABILITIES				
Ordinary share capital	17	*	*	*
Retained earnings		8,583.0	9,523.2	11,392.9
Non-distributable reserves	18	(194.0)	(97.4)	8.8
Equity attributable to equity holders of the parent		8,389.0	9,425.8	11,401.7
Minority interests	19	283.3	221.2	403.6
Total equity		8,672.3	9,647.0	11,805.3
Non-current liabilities		2,236.6	3,812.1	4,788.2
Interest bearing debt	21	819.2	2,051.4	3,025.8
Non-interest bearing debt	22	-	3.0	6.0
Deferred taxation	13	602.3	757.3	776.5
Deferred revenue		320.3	412.3	358.8
Provisions	23	372.3	377.5	373.7
Other non-current liabilities	24	122.5	210.6	247.4
Current liabilities		13,858.9	15,011.1	17,581.7
Trade and other payables	25	5,104.7	6,874.4	7,561.3
Deferred revenue		1,604.5	1,904.8	2,229.9
Taxation payable		630.2	1,112.7	580.5
Non-interest bearing debt	22	4.3	-	-
Interest bearing debt	21	1,645.5	501.0	502.9
Provisions	23	623.0	741.8	909.5
Dividends payable		2,800.0	2,990.0	3,190.0
Derivative financial liabilities	42	60.9	7.2	10.8
Bank borrowings	34	1,385.8	879.2	2,596.8
Total equity and liabilities		24,767.8	28,470.2	34,175.2

* Share capital R100

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the three years ended March 31, 2008

	Notes	Attributable to equity shareholders				Minority interests	Total equity
		Share capital	Retained earnings	Non-distributable reserves	Total		
		Rm	Rm	Rm	Rm	Rm	Rm
Balance at March 31, 2005		*	8,059.1	(299.9)	7,759.2	128.7	7,887.9
Net profit for the period		-	5,026.1	-	5,026.1	116.7	5,142.8
Dividends declared	19,35	-	(4,500.0)	-	(4,500.0)	(0.9)	(4,500.9)
Business combinations and other acquisitions	19,32	-	-	-	-	46.5	46.5
Minority shares of VM, S.A.R.L.		-	-	-	-	8.0	8.0
Contingency reserve	18	-	(2.2)	2.2	-	-	-
Net gains and losses not recognised in the income statement		-	-	103.9	103.9	(15.6)	88.3
Foreign currency translation reserve		-	-	(0.2)	(0.2)	(0.1)	(0.3)
Revaluation of available-for-sale investments	18,19	-	-	(0.2)	(0.2)	(0.1)	(0.3)
Balance at March 31, 2006		*	8,583.0	(194.0)	8,389.0	283.3	8,672.3
Net profit for the period		-	6,342.4	-	6,342.4	217.6	6,560.0
Dividends declared	19,35	-	(5,400.0)	-	(5,400.0)	(170.8)	(5,570.8)
Business combinations and other acquisitions	19,32	-	-	-	-	(136.4)	(136.4)
Contingency reserve	18	-	(2.2)	2.2	-	-	-
Net gains and losses not recognised in the income statement		-	-	94.4	94.4	27.5	121.9
Foreign currency translation reserve		-	-	94.4	94.4	27.5	121.9
Balance at March 31, 2007		*	9,523.2	(97.4)	9,425.8	221.2	9,647.0
Net profit for the period		-	7,811.4	-	7,811.4	146.2	7,957.6
Dividends declared	19,35	-	(5,940.0)	-	(5,940.0)	(0.6)	(5,940.6)
Business combinations and other acquisitions	19,32	-	-	-	-	(6.1)	(6.1)
Disposal of subsidiaries	19,33	-	-	-	-	(0.3)	(0.3)
Minority shares of VM, S.A.R.L.		-	-	-	-	0.8	0.8
Contingency reserve	18	-	(1.7)	1.7	-	-	-
Net gains and losses not recognised in the income statement		-	-	87.7	87.7	42.4	130.1
Foreign currency translation reserve		-	-	16.8	16.8	-	16.8
Revaluation of available-for-sale investments	18,19	-	-	16.8	16.8	-	16.8
Balance at March 31, 2008		*	11,392.9	8.8	11,401.7	403.6	11,805.3

* Share capital R100

CONSOLIDATED CASH FLOW STATEMENTS

for the three years ended March 31, 2008



	Notes	2006 Rm	2007 Rm	2008 Rm
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers		33,132.7	40,380.0	47,409.6
Cash paid to suppliers and employees		(22,042.4)	(26,513.9)	(31,076.1)
Cash generated from operations	26	11,090.3	13,866.1	16,333.5
Finance costs paid	27	(214.3)	(326.6)	(669.6)
Finance income received	28	124.1	41.7	74.3
Realised net losses on remeasurement and disposal of financial instruments	29	(17.6)	(38.8)	(151.0)
Taxation paid	30	(2,980.3)	(3,303.3)	(4,721.5)
Dividends paid – equity shareholders		(3,500.0)	(5,300.0)	(5,650.0)
Dividends paid – minority shareholders		(0.9)	(80.8)	(90.6)
Net cash flows from operating activities		4,501.3	4,858.3	5,125.1
CASH FLOW FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	31	(4,788.4)	(5,955.3)	(6,540.6)
Proceeds on disposal of property, plant and equipment and intangible assets		31.2	98.3	10.2
Business combinations and other acquisitions	32	(0.1)	(591.2)	(956.5)
Disposal of subsidiaries	33	-	-	15.7
Other investing activities		(33.5)	(135.7)	(31.0)
Net cash flows utilised in investing activities		(4,790.8)	(6,583.9)	(7,502.2)
CASH FLOW FROM FINANCING ACTIVITIES				
Non-interest bearing debt incurred		-	3.0	-
Non-interest bearing debt repaid		-	-	(3.0)
Interest bearing debt incurred		32.3	6.0	1,000.0
Interest bearing debt repaid		(89.7)	(141.3)	(117.5)
Finance lease capital repaid		(50.2)	(67.7)	(108.9)
Bank borrowings		-	-	2,456.0
Share capital and premium movement of minority shareholders		-	-	7.2
Net cash flows from/(utilised) in financing activities		(107.6)	(200.0)	3,233.8
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(397.1)	(1,925.6)	856.7
(Bank borrowings)/cash and cash equivalents at the beginning of the year		2,173.0	1,760.3	(107.8)
Effect of foreign exchange rate changes		(15.6)	57.5	87.9
CASH AND CASH EQUIVALENTS/(BANK BORROWINGS) AT THE END OF THE YEAR	34	1,760.3	(107.8)	836.8

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2008

BASIS OF PREPARATION

These consolidated annual financial statements of Vodacom Group (Proprietary) Limited ("the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on the historical cost basis, except for financial assets and financial liabilities (including derivative instruments) recorded at fair value or at amortised cost. The consolidated annual financial statements have been presented in South African Rands, as this is the currency in which the majority of the Group's transactions are denominated.

The principal accounting policies are consistent in all material respects with those applied in the previous period, except where disclosed elsewhere.

The following are the principal accounting policies adopted by the Group in the preparation of these consolidated annual financial statements:

ACCOUNTING POLICIES

A. CONSOLIDATION

A.1 Basis of consolidation

The consolidated annual financial statements include the consolidated financial position, results of operations and cash flows of Vodacom Group (Proprietary) Limited and both foreign and domestic entities (subsidiaries, special purpose entities and joint ventures) controlled and jointly controlled by Vodacom Group (Proprietary) Limited, up to March 31, 2008.

Minority interests are separately presented in the consolidated balance sheets and income statements.

Goodwill on the acquisition of subsidiaries and joint ventures is accounted for in accordance with the Group's accounting policy for intangible assets set out below.

A.2 Business combinations

Acquisition of a business

Business combination acquisitions are accounted for using the purchase method of accounting, whereby the acquisition is accounted for at its cost plus any costs directly attributable to the acquisition. Cost represents the cash or cash equivalents paid or the fair value or other consideration given, at the date of the acquisition, measured as the aggregate of the fair values, at the date of the exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. Business combinations include the acquisition of subsidiaries and joint ventures.

On acquisition, the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or joint ventures that meet the recognition criteria, are measured based upon the Group's interest in their fair value at the date of acquisition, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"), which are recognised and measured at fair value less costs to sell. The interest of minority shareholders is recorded at the minority's share of the net fair value of the identifiable assets, liabilities and contingent liabilities that meet the recognition criteria. Subsequently, any losses attributable to minority shareholders in excess of their interest, is allocated against the interest of the Group, except to the extent that the minority shareholder has a binding obligation and is able to make an additional investment to cover the losses.

Disposals

On subsequent disposal, the profit or loss on disposal is the difference between the selling price and the carrying value of net assets and liabilities disposed of, adjusted for any related carrying amount of goodwill in accordance with the Group's accounting policies.

A.3 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control is presumed to exist where the Group has an interest of more than one half of the voting rights and the power to control the financial and operating activities of an entity so as to obtain benefits from its activities. All subsidiaries are consolidated.

Inter-company balances and transactions, and resulting unrealised profits between Group companies, are eliminated in full on consolidation.

A. CONSOLIDATION (CONTINUED)

A.3 Subsidiaries (continued)

Where necessary, accounting policies of subsidiaries are adjusted to ensure that the consolidated annual financial statements are prepared using uniform accounting policies.

Investments in subsidiaries are consolidated from the date on which the Group has power to exercise control, up to the date on which power to exercise control ceases.

Minority shareholders are treated as equity participants and, therefore, all subsequent acquisitions of minority interest by the Group in subsidiary companies are accounted for using the parent entity extension method. Under this method, the assets and liabilities of the subsidiary are not restated to reflect their fair values at the date of the acquisition. The difference between the purchase price and the minority interest's share of the assets and liabilities reflected within the consolidated balance sheet at the date of the acquisition is therefore reflected as goodwill.

A.4 Joint Ventures

Joint ventures, for the purpose of these consolidated annual financial statements, are those entities in which the Group has joint control through a contractual arrangement with one or more other venturers. Joint control exists when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Investments in joint ventures are proportionately consolidated from the date on which the Group has power to exercise joint control, up to the date on which power to exercise joint control ceases.

The Group's share of the assets, liabilities, income, expenses and cash flows of joint ventures are combined on a line by line basis with similar items in the consolidated annual financial statements.

The Group's proportionate share of inter-company balances and transactions, and resulting unrealised profit or losses, between Group companies and jointly controlled entities are eliminated on consolidation.

Joint ventures are included using the proportionate consolidation method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5.

B. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated and is recorded at cost less accumulated impairment losses, if any.

The cost of property, plant and equipment includes all directly attributable expenditure incurred in the acquisition, establishment and installation of such assets so as to bring them to the location and condition necessary for it to be capable of operating in the manner intended by management. Interest costs are not capitalised.

Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value. Useful lives, residual values and depreciation methods are reviewed on an annual basis with the effect of any changes in estimate accounted for on a prospective basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated.

Depreciation commences when the asset is ready for its intended use (in the case of infrastructure assets this is deemed to be the date of acceptance). Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale in accordance with IFRS 5 or the date the asset is derecognised. Depreciation is not ceased when assets are idle.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2008

B. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

General purpose buildings and special purpose buildings are generally classified as owner-occupied. They are therefore held at cost and depreciated as property, plant and equipment and not regarded as investment properties.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense during the period incurred.

Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in profit or loss in the period in which they occur. The date of disposal is determined as the date on which the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the proceeds on the sale can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Property, plant and equipment acquired in exchange for a non-monetary asset or assets is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Where a network infrastructure site lease contains a restoration clause, or where historical experience indicates that restoration costs will be incurred, a liability for the site restoration costs is recorded. The liability recorded is measured at the present value of the estimated future restoration costs to be incurred. The present value of the liability is capitalised to the underlying infrastructure asset to which the restoration costs relate at the inception of the restoration obligation. These amounts are amortised over the estimated useful life of the related infrastructure asset. The restoration liability is accreted to its future value over the lease period.

Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate, are accounted for as follows:

- changes in the liability are added, or deducted from, the cost of the reflected asset. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit and loss.
- adjustments that result in additions to the cost of assets are tested for impairment if it is considered that the new carrying value of the asset is not fully recoverable.

C. INVESTMENT PROPERTIES

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated so as to write off the cost of the investment property on a straight-line basis, over its estimated useful life to its estimated residual value. Depreciation commences when the property is ready for its intended use. The estimated useful lives of depreciable properties are disclosed under property, plant and equipment and can be general purpose buildings or special purpose buildings.

D. INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The following are the main categories of intangible assets:

D.1 Intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortised but instead are tested for impairment on an annual basis.

Goodwill

Goodwill represents the excess of the cost of an acquisition of a subsidiary or joint venture, over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition. Goodwill on the acquisition of subsidiaries and joint ventures is included in intangible assets. If the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition of a subsidiary or joint venture exceed the cost of the business combination, the excess is recognised immediately in profit or loss. Goodwill is tested annually for impairment, or more frequently when there is an indication that the goodwill may be impaired and carried at cost less accumulated impairment losses, if any. Impairment losses previously recognised cannot be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

D.2 Intangible assets with a finite useful life

Intangible assets with finite useful lives are amortised to profit or loss on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual values of intangible assets are assumed to be zero.

Licences

Licences, which are acquired, other than through a business combination, to yield an enduring benefit, are capitalised at cost and amortised from the date of commencement of usage rights over the shorter of the economic life or the duration of the licence agreement.

Customer bases

Cost of contract customer bases, prepaid customer bases and internet service provider customer bases acquired, other than through a business combination, represents the fair value at the acquisition date of the customer bases. Customer bases are amortised on a straight-line basis over their estimated useful lives.

Trademarks, patents and other

Purchased trademarks, patents and other acquired, other than through business combinations, are capitalised at cost and amortised over their estimated useful lives. Expenditure incurred to develop, maintain and renew internally generated trademarks and patents is recognised as an expense in the period incurred.

Computer software

Computer software that is not considered to form an integral part of any hardware equipment is recorded as intangible assets. The software is capitalised at cost and amortised over its estimated useful life.

D.3 Intangible assets not available for use

Intangible assets not available for use are not amortised but tested for impairment on an annual basis, or more frequently when there is an indication that the intangible asset may be impaired.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2008

E. INVENTORY

Inventory is stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing it to its present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and the estimated costs necessary to make the sale.

The amount of any write-down of inventory to net realisable value and all losses of inventory are recognised as an expense in the period that the write-down or loss occurs.

F. FOREIGN CURRENCIES

F.1 Transactions and balances

Foreign currency transactions are translated, on initial recognition, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at settlement date or balance sheet date, whichever occurs first. Exchange differences on the settlement or translation of monetary assets or liabilities are included in gains or losses on remeasurement and disposal of financial instruments in profit or loss in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated. When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

F.2 Foreign operations

The annual financial statements of foreign operations are translated into South African Rands for incorporation into the consolidated annual financial statements. Assets and liabilities are translated at the foreign exchange rates ruling at balance sheet date. Income, expenditure and cash flow items are translated at the actual foreign exchange rate at the date of the transaction or average foreign exchange rates for the period.

All resulting unrealised exchange differences are classified as equity and recognised in the foreign currency translation reserve. On disposal, the cumulative amounts of unrealised exchange differences that have been deferred are recognised in profit or loss as part of the gain or loss on disposal.

All gains and losses on the translation of equity loans to foreign entities that are intended to be permanent, whether they are denominated in one of the entities functional currencies or in a third currency, are recognised in equity.

Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are classified as equity and recognised in the foreign currency translation reserve.

G. TAXATION

G.1 Current taxation

The charge for current taxation is based on the results for the period and is adjusted for items that are non-assessable or disallowed. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

G.2 Deferred taxation balances

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the carrying amounts of assets and liabilities, on the consolidated balance sheet, and their respective taxation bases.

Deferred taxation is not provided on differences relating to goodwill for which amortisation is not deductible for taxation purposes or on the initial recognition of assets or liabilities, which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and joint ventures, except where the Group is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profits will be available against which the associated unused taxation losses or credits and deductible temporary differences can be utilised.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all, or part of the asset to be recovered.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the Group has the intention to settle its current taxation assets and liabilities on a net basis.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on taxation rates (and taxation laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred taxation assets and liabilities reflects the taxation consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Exchange differences arising from the translation of foreign taxation assets and liabilities of foreign entities where the functional currency is different to the local currency are classified as a deferred taxation expense or income.

G.3 Current and deferred taxation for the period

Current and deferred taxation are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the taxation is also recognised directly in equity, or where deferred taxation arises from the initial accounting for a business combination. In the case of a business combination, the deferred taxation asset or liability affects goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

G.4 Secondary taxation on companies

Secondary Taxation on Companies ("STC") is provided for at the prevailing rate on the amount of the net dividend declared by Vodacom Group (Proprietary) Limited. It is recorded as a taxation expense when dividends are declared.

STC credits on dividends received are recorded as assets in the period that they arise, limited to the amount recoverable based on the reserves available for distribution.

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H. EMPLOYEE BENEFITS

H.1 Post-employment benefits

The Group provides defined contribution funds for the benefit of employees, the assets of which are held in separate funds. The funds are funded by payments from employees and the Group. Contributions to the funds are recognised as an expense in the period in which the employee renders the related service.

The Group has no liability for contributions to the medical aid of retired employees.

H.2 Short-term and long-term benefits

The cost of all short-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognised during the period in which the employee renders the related service. The Group recognises the expected cost of bonuses only when the Group has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The Group provides long-term incentives to eligible employees payable on termination or retirement. The Group's liability is based on an actuarial valuation. Actuarial gains and losses on the long-term incentives are accounted for through profit and loss in the year in which they arise.

H.3 Accumulative termination benefits

Accumulative termination benefits are payable whenever:

- an employee's employment is terminated before the normal retirement date, or
- an employee accepts voluntary redundancy.

The Group recognises termination benefits when it is constructively obliged to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits fall due more than 12 months after balance sheet date, they are discounted to present value. If the amount can be reasonably estimated, the measurement of termination benefits is based on the number of employees expected to accept the offer.

H.4 Compensation benefits

Employees of wholly owned subsidiaries, including executive directors, are eligible for compensation benefits in the form of a deferred bonus incentive scheme. The benefit is recorded at the present value of the expected future cash outflows.

I. REVENUE RECOGNITION

Revenue net of discounts, which excludes Value Added Taxation and sales between Group companies, represents the invoiced value of goods and services supplied by the Group. The Group measures revenue at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. If applicable, revenue is split into separately identifiable components.

The Group invoices its independent service providers for the revenue billed by them on behalf of the Group. The Group, within its contractual arrangements with its agents, pays them administrative fees. The Group receives in cash, the net amount equal to the gross revenue earned less the administrative fees payable to the agents.

The recognition of revenue involves estimates and assumptions with regards to the useful life of the customer base. The estimates and assumptions are based on past experience.

I. REVENUE RECOGNITION (CONTINUED)

The main categories of revenue and bases of recognition for the Group are:

I.1 Contract products

Contract products that may include deliverables such as a handset and 24-month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the handset is recognised when the product is delivered, limited to the amount of cash received.
- Monthly service revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products, where applicable, allow the carry over of unused airtime. The unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in revenue.

I.2 Prepaid products

Prepaid products that may include deliverables such as a SIM-card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the activated SIM-card, representing activation fees, is recognised over the average useful life of a prepaid customer.
- Airtime revenue is recognised on the usage basis. Unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer relationship, all deferred revenue for unused airtime is recognised in revenue.

Upon purchase of an airtime voucher the customer receives the right to make outgoing voice and data calls to the value of the airtime voucher. Revenue is recognised as the customer utilises the voucher.

Deferred revenue and costs related to unactivated starter packs which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated by a customer becomes remote. In this regard the Group applies a period of 36 months before these revenue and costs are released to profit or loss.

I.3 Data revenue

Revenue net of discounts, from data services is recognised when the Group has performed the related service and depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

I.4 Equipment sales

Revenue from equipment sales is recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. This is normally achieved with acceptance of the goods on the delivery thereof.

Equipment sales to third party service providers are recognised when delivery is accepted. No rights of return exist on sale to third party service providers.

I.5 Mobile number portability

Revenue transactions from mobile number portability are accounted for in terms of current business rules and revenue recognition policies above.

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I. REVENUE RECOGNITION (CONTINUED)

I.6 Other revenue and income

• Interconnect and international revenue

Interconnect and international revenue is recognised on the usage basis.

• Dividends

Dividends from investments or subsidiaries are recognised when the shareholder's right to receive payment has been established.

• Interest

Interest is recognised on a time proportion basis with reference to the principal amount receivable and the effective interest rate applicable.

J. LEASES

J.1 Lease classification

Leases involving property, plant and equipment whereby the lessor provides finance to the lessee with the asset as security, and where the lessee assumes the significant risks and rewards of ownership of those leased assets, are classified as finance leases.

Leases of property, plant and equipment to the lessee, under which the lessor effectively retains the significant risks and rewards of ownership of those leased assets, are classified as operating leases.

A lease of land and buildings is classified by considering the land and buildings elements separately. Minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the land and leasehold buildings elements of the lease.

J.2 Group as lessee

• Finance leases

Lessee finance leases are capitalised, as property, plant and equipment, at their cash equivalent cost and a corresponding finance lease liability is raised. The cash equivalent cost is the lower of fair value of the asset or the present value of the minimum lease payments, at inception of the lease. Such assets are depreciated in accordance with the accounting policy on property, plant and equipment stated above.

Lease payments are allocated between lease finance costs and a capital reduction of the finance lease liability. Lease finance costs are allocated to profit or loss over the term of the lease using the effective interest rate method, so as to produce a constant periodic rate of return on the remaining balance of the liability for each period.

• Operating leases

Lessee operating lease rental payments are expensed in profit or loss on a straight-line basis over the lease term.

When an operating lease is terminated before the lease term has expired any payment to the lessor that is required, by way of penalty, is recognised as an expense in the period in which termination takes place.

J.3 Group as lessor

• Finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

• Operating leases

Lessor operating lease rental income is recognised in profit or loss on a straight-line basis over the lease term. Such leased assets are included under property, plant and equipment and depreciated in accordance with the accounting policy stated above.

K. FINANCIAL INSTRUMENTS

Financial instruments include all financial assets, financial liabilities and equity instruments including derivative instruments.

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

• Fair value methods and assumptions

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial instruments with standard terms and conditions and traded in active, liquid and organised financial markets are determined with reference to the applicable quoted market prices.

The fair values of derivative instruments are determined using quoted prices or where such prices are not available, discounted cash flow methods using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives. These amounts reflect the approximate values of the net derivative position at the balance sheet date. The quoted market prices used for interest rate derivatives is at the effective yield basis, while the quoted market prices used for foreign exchange derivatives is at the mid or mid forward rate.

The fair value of other financial instruments, excluding derivative instruments, not traded in active, liquid and organised financial markets is determined by using a variety of methods and assumptions that are based on market conditions and risks existing at balance sheet date, including independent appraisals and discounted cash flow methods.

• Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of financial assets and financial liabilities and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts and future cash payments through the expected life of the financial asset and financial liability, or where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

• Amortised cost

Amortised cost is the amount at which the financial asset and financial liability is measured at initial recognition less principal repayments, cumulative amortisation and accumulated impairment losses. The cumulative amortisation of any difference between the initial amount and the maturity amount of the financial asset and financial liability is calculated by using the effective interest rate method and recognised in profit or loss as interest income or interest expense over the period of the investment or debt.

K.1 Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group's principal financial assets, other than derivatives which are dealt with below, are investments, loans and other receivables, finance lease assets, trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables) and cash and cash equivalents.

Financial assets are recognised and derecognised on a trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the instrument within the timeframe established by the market concerned.

All financial assets are initially measured at fair value, including transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value, excluding transaction costs.

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K. FINANCIAL INSTRUMENTS (CONTINUED)

K.1 Financial assets (continued)

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

Subsequent to initial measurement, these instruments are measured as set out below.

• Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or the financial asset is designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that it is not designated as an effective hedging instrument or a derivative that is a financial guarantee contract.

Financial assets are designated upon initial recognition at fair value through profit or loss when:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives which do not significantly modify cash flows and can be separated from the hybrid contract.

Financial assets at fair value through profit or loss are subsequently measured at fair value, with any resultant remeasurement gains and losses recognised in gains or losses on remeasurement and disposal of financial instruments in profit or loss. The net gain or loss recognised in profit or loss incorporates any gains or losses on remeasurement, dividends and interest income on the financial asset.

These financial assets are classified as current assets if they are either held for trading or expected to be realised within twelve months of the balance sheet date.

• Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss. Interest income is recognised in profit or loss by applying the effective interest rate.

• Available-for-sale financial assets

Investments in equity instruments, excluding those in subsidiaries, joint ventures and those acquired principally for the purpose of generating a profit from the short-term fluctuations in price, are classified as available-for-sale investments and are subsequently measured at fair value. Gains and losses from changes in fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in gains or losses on remeasurement and disposal of financial instruments in profit or loss.

The net gain or loss recognised in profit or loss incorporates any gains or losses on remeasurement transferred from equity to profit or loss, dividends and interest income on the financial asset.

These investments are classified as non-current assets unless management intends to dispose of the investments within twelve months of the balance sheet date.

K. FINANCIAL INSTRUMENTS (CONTINUED)

K.1 Financial assets (continued)

• Loans and receivables

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans, finance lease assets and cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment loss. Interest income is recognised in profit or loss by applying the effective interest rate, except for short-term trade receivables where the recognition of interest would be immaterial. Trade receivables are carried at original invoice amount less any impairment loss.

The terms of loans granted are renegotiated on a case by case basis if circumstances require renegotiation.

The accounting policy for bank and cash balances is dealt with under cash and cash equivalents set out below.

• Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired and impairment losses are incurred where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted and the Group will not be able to collect all amounts due according to the original terms of the financial asset.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

• Financial assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of financial assets carried at amortised cost is reduced directly by the impairment loss with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. The amount of the allowance account is the difference between the carrying amount and the recoverable amount. When management deems a trade receivable to be uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, either directly or by adjusting the allowance account, through profit or loss. The carrying amount of the financial asset at the date the impairment is reversed will not exceed what the amortised cost would have been had the impairment not been recognised.

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K. FINANCIAL INSTRUMENTS (CONTINUED)

K.1 Financial assets (continued)

· Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss recognised directly in equity is removed from equity and recognised in profit or loss. The amount of the cumulative loss removed from equity to profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss previously recognised in profit or loss.

Reversal of impairment losses on available-for-sale equity investments is recognised directly in equity, while the reversal of impairment losses on available-for-sale debt instruments is recognised in profit or loss.

K.2 Financial liabilities and equity instruments

· Classification as equity, debt or compound instruments

Financial liabilities and equity instruments issued by the Group are classified on initial recognition as debt or equity or compound instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

· Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's principal equity instrument is ordinary share capital, which is recorded at the proceeds received, net of any direct issue costs.

· Financial liabilities

Financial liabilities are classified into the following categories: financial liabilities at fair value through profit or loss, financial liabilities held at amortised cost and financial guarantee contract liabilities. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition.

The Group's principal financial liabilities, other than derivatives which are dealt with below, are interest bearing debt, non-interest bearing debt, trade and other payables (Value Added Taxation, revenue charged in advance and reduced subscriptions excluded), dividends payable, bank borrowings and other short-term debt.

All financial liabilities are initially measured at fair value, including transaction costs, except for those financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value, excluding transaction costs.

The fair value of a financial instrument on initial recognition is normally the transaction price unless the fair value is evident from observable market data.

K. FINANCIAL INSTRUMENTS (CONTINUED)

K.2 Financial liabilities and equity instruments (continued)

Subsequent to initial measurement, these instruments are measured as set out below.

• Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss where the financial liability is either held for trading or the financial liability is designated at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term;
- it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated as an effective hedging instrument or a derivative that is a financial guarantee contract.

Financial liabilities are designated upon initial recognition at fair value through profit or loss when:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the groupings is provided internally on that basis; or
- it forms part of any contract containing one or more embedded derivatives.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with any resultant remeasurement gains and losses recognised in gains or losses on remeasurement and disposal of financial instruments in profit or loss. The net gain or loss recognised in profit or loss incorporates any gains or losses on remeasurement and interest paid on the financial liability.

These financial liabilities are classified as current liabilities if they are either held for trading or expected to be settled within twelve months of the balance sheet date.

• Financial liabilities held at amortised cost

Interest bearing debt, including finance lease obligations, non-interest bearing debt, bank borrowings and other short-term debt are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in profit or loss by applying the effective interest rate.

The terms of loans received are renegotiated on a case by case basis if circumstances require renegotiation.

Interest bearing debt and non-interest bearing debt are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Trade and other payables are carried at the original invoice amount.

Dividends payable are stated at amounts declared.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as interest expense.

A contract that contains an obligation for the Group to purchase its own equity instrument for cash or another financial asset gives rise to a financial liability and is accounted for at the present value of the redemption amount. On initial recognition its fair value is reclassified directly from equity. Subsequent changes in the liability are included in profit and loss. On expiry or exercise of the option the carrying value of the liability is reclassified directly to equity.

The accounting policy for bank borrowings and other short-term debt is dealt with under cash and cash equivalents set out below, while the accounting policy for finance lease obligations is dealt with under leases set out above.

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K FINANCIAL INSTRUMENTS (CONTINUED)

K.2 Financial liabilities and equity instruments (continued)

· Financial guarantee contract liabilities

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder of the instrument for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are measured initially at fair value and subsequently at the higher of the amount determined in accordance with the Group's policy on provisions as set out below, or the amount initially recognised less, when appropriate, cumulative amortisation.

K.3 Derivative financial instruments

The Group's principal derivative financial instruments are option contracts, interest rate swaps and foreign exchange forward contracts.

The Group recognises all derivative instruments on the consolidated balance sheet at fair value, including certain derivative instruments embedded in other contracts. Derivatives are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date. Changes in the fair value of derivative instruments are recorded in profit or loss as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives unless the risks and characteristics are closely related to those host contracts and the host contracts are carried at fair value.

The Group does not use derivatives for trading or speculative purposes. Derivatives are not designated into an effective hedge relationship and are classified as current assets or a current liability.

K.4 Derecognition

Financial assets, or a portion thereof, are derecognised when the Group's rights to the cash flow expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the entity loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in profit or loss.

Financial liabilities, or a portion thereof, are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and settlement amounts paid are included in profit or loss.

K.5 Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

L. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation resulting from past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A past event is deemed to give rise to a present obligation if, taking into account all of the available evidence, it is more likely than not that a present obligation exists at balance sheet date.

The amount recognised, as a provision is the best estimate of the expenditure required to settle the present obligation at balance sheet date, taking into account risks and uncertainties surrounding the provision. Long-term provisions are discounted to net present value.

M. IMPAIRMENT OF ASSETS

Goodwill and other assets that have an indefinite useful life and intangible assets not available for use are tested annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in profit or loss immediately. The recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use of an asset represents the expected future cash flows, from continuing use and disposal that are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purpose of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods. No goodwill impairment losses are reversed.

After the recognition of an impairment loss, any depreciation or amortisation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

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N. INSURANCE CONTRACTS

N.1 Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Taxation. Premiums written include adjustments to premiums written in prior accounting periods.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed.

The net earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

N.2 Unearned premium income

Unearned premium income comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

N.3 Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

N.4 Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained earnings.

O. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, net of bank borrowings, all of which are available for use by the Group unless otherwise stated.

Cash on hand is initially recognised at fair value and subsequently measured at its face value.

Deposits held on call are classified as loans and receivables by the Group and carried at amortised cost. Due to the short-term nature of these, the amortised cost normally approximates its fair value.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

P. BORROWING COSTS

Borrowing costs are expensed as they are incurred.

Q. EXPENSES

Marketing and advertising costs are expensed as they are incurred. Prepaid costs related to annual events sponsorships are expensed over the duration of the event. Restraint of trade payments are made to limit an executive's post employment activities and are expensed as incurred.

R. INCENTIVES

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed over the period that the related revenue is recognised.

Distribution incentives paid to service providers and dealers for exclusivity are deferred and expensed over the contractual relationship period.

S. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

U. COMPARATIVES

Certain comparative figures have been reclassified, where required or necessary, in accordance with current period classifications and presentation.

V. OPERATING SEGMENTS

The Group discloses its operating segments according to the entity components regularly reviewed by the chief operating decision maker. The components comprise of geographical operating segments located in South Africa and non-South African countries.

Segment information is prepared in conformity with the measure that is reported to the chief operating decision maker. These values have been reconciled to the consolidated financial statements. The measure reported by the Group is in accordance with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes Value Added Taxation and includes intergroup revenue. Net revenue represents segment revenue from which intergroup revenue has been eliminated. Sales between segments are made on a commercial basis. Segment profit or loss from operations represents segment revenue less segment operating expenses. Segment expenses include direct and operating expenses. Impairments, depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets and liabilities comprise all assets and liabilities of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis.

Capital expenditure in property, plant and equipment and intangible assets has been allocated to the segments to which it relates.

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	2006 Rm	2007 Rm	2008 Rm
1. REVENUE			
Airtime and access	20,085.8	23,707.5	27,095.2
Data revenue	2,037.6	3,341.7	5,002.2
Interconnect revenue	6,696.8	7,835.6	8,887.1
Equipment sales	3,985.6	4,699.1	5,051.4
International airtime	971.2	1,305.8	1,835.9
Other	265.5	256.7	306.0
	34,042.5	41,146.4	48,177.8
2. DIRECT NETWORK OPERATING COST			
Airtime and access	(5,596.0)	(6,929.0)	(7,838.6)
Data expenditure	(320.0)	(531.3)	(757.0)
Interconnect cost	(4,312.2)	(5,179.9)	(6,039.2)
Equipment cost	(4,173.9)	(5,022.8)	(5,519.1)
International airtime cost	(322.1)	(456.2)	(518.1)
Regulatory fees	(812.1)	(979.7)	(1,054.9)
Network operational expenses *	(1,781.0)	(2,248.1)	(2,778.7)
Other	(979.9)	(1,092.8)	(1,793.9)
	(18,297.2)	(22,439.8)	(26,299.5)
* Network operational expenses include transmission rental, site costs and site maintenance.			
3. IMPAIRMENT OF ASSETS			
Intangible asset	(0.1)	(0.3)	-
Goodwill	-	(0.2)	-
Computer software	(0.1)	(0.1)	-
Property, plant and equipment	52.9	(22.6)	(29.9)
Infrastructure	59.9	(17.9)	(23.9)
Information services	(5.6)	(3.7)	(3.2)
Motor vehicles	(0.3)	(0.3)	(0.8)
Furniture and office equipment	(0.5)	(0.3)	(0.6)
Leasehold improvements	(0.3)	(0.1)	(0.7)
Other assets	(0.3)	(0.3)	(0.7)
(Impairment recognised)/impairment reversed	52.8	(22.9)	(29.9)

Due to the competitive and economic environment in which VM, S.A.R.L. operates in Mozambique, the Group assessed the assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets ("IAS 36"). The recoverable amount of these assets was based on the fair value less cost of disposal at March 31, 2008, 2007 and 2006. The amount with which the carrying amount exceeded the recoverable amount is recognised as an impairment loss. The reversal of the impairment loss in the 2006 financial year related to an increase in the fair value of infrastructure assets due to exchange rate fluctuations.

	2006 Rm	2007 Rm	2008 Rm
4. PROFIT FROM OPERATIONS			
The profit from operations is arrived at after taking the following income/(expenditure) into account:			
Net (loss)/profit on disposal of property, plant and equipment and intangible assets	(26.8)	26.9	(39.3)
Loss on disposal of property, plant and equipment and intangible assets	(27.5)	(30.3)	(42.2)
Profit on disposal of property, plant and equipment and intangible assets	0.7	57.2	2.9
Profit on disposal of shares in subsidiary	-	17.4	8.0
Auditor's remuneration - audit fees	(14.9)	(16.6)	(23.3)
Current year audit fees	(14.0)	(16.2)	(21.1)
Prior year under-provision of audit fees	(0.8)	(0.2)	(1.4)
Telkom costs	(4.8)	(6.1)	(5.1)
Telkom recovery	4.8	6.1	5.1
Expenses	(0.1)	(0.2)	(0.8)
Auditor's remuneration - other services	(2.1)	(0.6)	(3.0)
Professional fees for consultancy services	(112.2)	(147.1)	(203.7)
Operating lease rentals	(870.7)	(1,259.1)	(1,550.3)
GSM transmission and data lines	(787.9)	(965.8)	(1,224.7)
Office accommodation	(47.6)	(65.1)	(94.0)
Other accommodation	(33.0)	(223.4)	(225.6)
Office equipment	(1.1)	(0.2)	(0.2)
Motor vehicles	(1.1)	(4.6)	(5.8)
Staff expenses - pension and provident fund contributions	(89.3)	(97.4)	(126.9)
Pension fund contributions	(76.4)	(84.7)	(113.4)
Provident fund contributions	(12.9)	(12.7)	(13.5)
Increase in provision for obsolete inventory (Note 14)	(15.9)	(18.3)	(0.2)

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	2006 Rm	2007 Rm	2008 Rm
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4. PROFIT FROM OPERATIONS (CONTINUED)

The profit from operations is arrived at after taking the following income/(expenditure) into account:

(Increase)/Decrease in provision for doubtful receivables (Note 15)	8.9	9.7	(5.8)
Decrease/(Increase) in provision for doubtful receivables - South Africa (Note 15)	1.0	(6.8)	12.6
(Increase)/Decrease in provision for doubtful receivables - non-South African (Note 15)	7.9	16.5	(18.4)

Marketing and advertising expenses include broadcasting, branding, publications and sponsorship expenditure.

Other operating expenses include accommodation costs, auditor's remuneration, consultancy fees, information technology costs, insurance, office administration costs, sales and distribution costs, social economic investment costs, subsistence and travel costs and transport costs.

Insurance activities

The Group offers a range of insurance contracts to its customers providing protection against specified risks associated with the ownership of a cell phone. These products are offered through a cell captive facility maintained with Centriq Insurance Company Limited, a South African registered short-term insurance company. The cell captive facility is further used to issue insurance contracts to Group companies to provide cover against a variety of insurable risks including assets own risk. The extended warranty provided to customers is no longer provided by the Group as the suppliers assumed responsibility for the second year warranty. Inter-company transactions are eliminated on consolidation of the cell captive.

In terms of the shareholders' agreement, the Group carries all the risks and rewards related to the business underwritten in the cell captive facility. The risks are closely monitored by the Group through the ongoing review of the performance of the underlying insurance products. Premium rate adjustments are used to mitigate the associated insurance risks.

Provided below is a summarised underwriting account giving details of the R38.7 million (2007: R28.8 million; 2006: R52.5 million) underwriting profit included in profit from operations:

	2006 Rm	2007 Rm	2008 Rm
Net earned premiums	112.7	131.6	146.6
Gross claims incurred	(51.7)	(67.4)	(76.1)
Net reinsurance (expense)/income	10.7	(11.6)	(4.9)
Net operating expenses	(19.2)	(23.8)	(26.9)
Underwriting profit	52.5	28.8	38.7

	2006 Rm	2007 Rm	2008 Rm
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5. FINANCE INCOME

Interest on financial instruments not at fair value through profit or loss

93.7 52.8 54.6

Banks

89.4 30.6 33.0

Loans

- 20.7 17.7

Other interest income

4.3 1.5 3.9

Interest on financial assets at fair value through profit or loss

20.8 20.6 17.7

Interest rate swap interest

13.0 10.2 5.1

Interest on money market investments

7.8 10.4 12.6

Interest on non-financial instruments

15.4 1.1 -

Interest received from taxation authorities

15.4 1.1 -

129.9 74.5 72.3

During the year the Group reclassified gains on remeasurement and disposal of financial instruments from finance income to gains or losses on remeasurement and disposal of financial instruments.

6. FINANCE COSTS

Finance costs on financial liabilities not at fair value through profit or loss

(237.8) (358.9) (666.5)

Bank overdraft

(12.4) (131.4) (399.1)

Debt *

(92.0) (113.9) (168.8)

Finance leases

(121.6) (112.3) (98.2)

Other finance costs

(11.8) (1.3) (0.4)

Finance costs on non-financial instruments

(8.2) (10.4) (14.8)

Long-term incentive interest

(6.5) (9.6) (14.4)

Interest paid to taxation authorities

(1.7) (0.8) (0.4)

(246.0) (369.3) (681.3)

* Included in debt is an amount of R11.0 million (2007: R10.0 million; 2006: R8.1 million) which relates to notional interest on the loans from Caspian Limited, Planetel Communications Limited and Mirambo Limited that was remeasured at amortised cost, at an effective interest rate of LIBOR plus 5% and the loan from Sekha-Metsi Investment Consortium Limited that was remeasured at amortised cost, at an effective interest rate of 13.7%, for which no consideration has been recorded.

During the year the Group reclassified losses on remeasurement and disposal of financial instruments from finance costs to gains or losses on remeasurement and disposal of financial instruments.

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	2006 Rm	2007 Rm	2008 Rm
7. GAINS/(LOSSES) ON REMEASUREMENT AND DISPOSAL OF FINANCIAL INSTRUMENTS			
Gain/(Loss) on foreign exchange forward contract revaluation	(260.6)	467.7	345.8
Loss on interest rate swap revaluation	(6.6)	(9.9)	(10.3)
Gain on revaluation of foreign denominated cash and cash equivalents	-	6.2	24.3
(Loss)/Gain on revaluation of foreign denominated assets	(27.4)	9.7	(15.2)
Gain/(Loss) on sale of investments	(3.3)	(0.7)	2.2
Loss on revaluation of foreign denominated liabilities	(225.2)	(642.0)	(161.7)
	(523.1)	(169.0)	185.1
8. NET GAINS/(LOSSES)			
Net gains/(losses) on financial instruments analysed by category, are as follows:			
Financial assets and financial liabilities at fair value through profit or loss, classified as held for trading	(246.4)	478.4	353.2
Available-for-sale investments	(3.3)	(0.7)	2.2
Loans and receivables (including cash and bank deposits)	66.3	62.5	63.7
Financial liabilities held at amortised cost	(341.4)	(882.4)	(730.0)
Finance leases	(121.6)	(112.3)	(98.2)
Net losses attributable to financial instruments	(646.4)	(454.5)	(409.1)
Net (losses)/gains attributable to non-financial instruments	7.2	(9.3)	(14.8)
	(639.2)	(463.8)	(423.9)

	2006 Rm	2007 Rm	2008 Rm
9. TAXATION			
South African normal taxation	(2,375.6)	(3,058.7)	(3,472.8)
Current year	(2,337.9)	(3,063.7)	(3,487.2)
Prior year over/(under) provision	(37.7)	5.0	14.4
Deferred taxation	(136.2)	44.0	99.5
Current year	(177.0)	45.3	94.4
Prior year (under)/over provision	40.8	(1.3)	(4.6)
Taxation rate change*	-	-	9.7
Secondary taxation on companies - current year	(562.5)	(692.7)	(594.0)
Foreign taxation	(29.8)	(34.3)	(114.3)
Current year	(29.4)	(34.0)	(113.0)
Prior year under provision	(0.4)	(0.3)	(1.3)
Foreign deferred taxation	20.4	(94.3)	(27.6)
Current year	43.5	(135.4)	(134.0)
Prior year over/(under) over provision	(22.0)	41.1	106.4
Taxation rate change #	(1.1)	-	-
	(3,083.7)	(3,836.0)	(4,109.2)

* Deferred taxation was calculated at 28% for all South African entities at March 31, 2008 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation with effect from the 2009 financial year.

Deferred taxation was calculated at 25% for Vodacom Lesotho (Proprietary) Limited at March 31, 2006 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation with effect from the 2007 financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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	2006 Rm	2006 %	2007 Rm	2007 %	2008 Rm	2008 %
9. TAXATION (CONTINUED)						
Reconciliation of rate of taxation						
Normal taxation on profit before taxation	(2,385.7)	(29.0)	(3,014.9)	(29.0)	(3,499.4)	(29.0)
Adjusted for:						
Disallowed expenditure	(135.6)	(1.7)	(205.8)	(2.0)	(125.8)	(1.0)
Unrecognised taxation asset	(149.9)	(1.8)	(86.5)	(0.9)	(31.9)	(0.3)
Functional vs local reporting currency	(45.3)	(0.6)	226.8	2.2	23.8	0.2
Revaluation of tax base of qualifying assets	181.6	2.2	(98.6)	(0.9)	(26.6)	(0.2)
Translation of deferred taxation to US\$	16.8	0.2	(95.7)	(0.9)	(6.0)	(0.1)
Secondary taxation on companies	(562.5)	(6.9)	(692.7)	(6.7)	(594.0)	(5.0)
Secondary taxation on companies credits	-	-	(3.8)	-	-	-
Prior year over/(under) provision	(19.3)	(0.2)	44.5	0.4	114.8	1.0
Foreign taxation rate differences	15.6	0.2	48.6	0.5	(7.6)	(0.1)
Taxation rate change * #	(1.1)	-	-	-	9.7	0.1
Foreign taxation	(8.7)	(0.1)	(10.4)	(0.1)	(20.6)	(0.2)
Taxation not payable due to tax concession	-	-	81.2	0.8	67.7	0.6
Foreign controlled entity passive income imputed	(17.8)	(0.2)	(27.9)	(0.3)	(21.9)	(0.2)
Exempt income	1.1	-	(0.2)	-	-	-
Other adjustments	(0.4)	-	(0.6)	-	8.0	0.1
Business combination contingent purchase consideration	20.6	0.3	-	-	-	-
Utilisation of taxation losses	6.9	0.1	-	-	0.6	-
	(3,083.7)	(37.5)	(3,836.0)	(36.9)	(4,109.2)	(34.1)

* Deferred taxation was calculated at 28% for all South African entities at March 31, 2008 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation with effect from the 2009 financial year.

Deferred taxation was calculated at 25% for Vodacom Lesotho (Proprietary) Limited at March 31, 2006 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation with effect from the 2007 financial year.

	Cost	Accumulated depreciation and impairment	Net book value
	Rm	Rm	Rm
10. PROPERTY, PLANT AND EQUIPMENT			
2006			
Land and buildings	1,033.9	(105.0)	928.9
Infrastructure	22,556.3	(10,925.7)	11,630.6
Information services	1,623.9	(1,100.4)	523.5
Community services	107.8	(65.9)	41.9
Motor vehicles	154.4	(90.8)	63.6
Furniture and office equipment	251.3	(203.0)	48.3
Leasehold improvements	361.4	(214.9)	146.5
Other assets	33.2	(29.9)	3.3
	26,122.2	(12,735.6)	13,386.6
2007			
Land and buildings	1,277.9	(135.4)	1,142.5
Infrastructure	26,788.9	(12,084.6)	14,704.3
Information services	1,924.0	(1,248.5)	675.5
Community services	127.2	(72.3)	54.9
Motor vehicles	192.7	(103.6)	89.1
Furniture and office equipment	335.9	(233.0)	102.9
Leasehold improvements	538.2	(276.5)	261.7
Other assets	74.3	(32.0)	42.3
	31,259.1	(14,185.9)	17,073.2
2008			
Land and buildings	1,470.2	(163.5)	1,306.7
Infrastructure	31,398.2	(15,131.2)	16,267.0
Information services	2,165.0	(1,426.8)	738.2
Community services	131.6	(76.9)	54.7
Motor vehicles	252.0	(121.2)	130.8
Furniture and office equipment	327.3	(183.4)	143.9
Leasehold improvements	763.4	(320.4)	443.0
Other assets	83.3	(48.0)	35.3
	36,591.0	(17,471.4)	19,119.6

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	Land and buildings	Infra- structure	Information services	Community services	Motor vehicles	Furniture & office equipment	Leasehold improvements	Other assets	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)									
Reconciliation 2006									
Opening balance	848.8	9,889.7	572.0	18.9	64.4	54.2	102.0	26.9	11,576.9
Reclassified to finance lease receivables	-	-	-	-	(12.0)	-	-	-	(12.0)
Additions	98.2	4,237.9	237.2	16.1	27.1	23.0	55.3	4.6	4,699.4
Disposals	-	(51.0)	(1.7)	-	(0.2)	(0.4)	(0.1)	(3.0)	(56.4)
Foreign currency translation	(0.5)	(246.0)	(3.8)	-	(1.8)	(0.9)	(0.9)	-	(253.9)
Depreciation	(17.6)	(2,530.0)	(41.9)	6.9	(13.6)	(24.9)	(22.0)	(8.5)	(2,651.6)
Business combinations (Note 32)	-	-	1.7	-	-	-	-	-	1.7
Impairments (Note 3)	-	59.9	(5.6)	-	(0.3)	(0.5)	(0.3)	(0.3)	52.9
Transfer from intangible assets/Asset category transfer (Note 11)	-	270.1	(234.4)	-	-	(2.2)	12.5	(16.4)	29.6
Closing balance	928.9	11,630.6	523.5	41.9	63.6	48.3	146.5	3.3	13,386.6
Reconciliation 2007									
Opening balance	928.9	11,630.6	523.5	41.9	63.6	48.3	146.5	3.3	13,386.6
Additions	214.3	5,239.2	302.3	19.6	41.3	71.9	208.3	40.2	6,137.1
Disposals	(1.3)	(60.5)	(4.0)	(0.1)	(5.1)	(0.2)	-	-	(71.2)
Foreign currency translation	4.0	479.9	12.8	-	3.2	2.0	4.0	0.6	506.5
Depreciation	(21.5)	(2,580.0)	(181.2)	(6.5)	(13.6)	(29.8)	(67.6)	(1.6)	(2,901.8)
Business combinations (Note 32)	-	2.4	-	-	0.2	3.0	-	-	5.6
Impairments (Note 3)	-	(17.9)	(3.7)	-	(0.3)	(0.3)	(0.1)	(0.3)	(22.6)
Transfer from intangible assets/Asset category transfer (Note 11)	18.1	10.6	25.8	-	(0.2)	8.0	(29.4)	0.1	33.0
Closing balance	1,142.5	14,704.3	675.5	54.9	89.1	102.9	261.7	42.3	17,073.2
Reconciliation 2008									
Opening balance	1,142.5	14,704.3	675.5	54.9	89.1	102.9	261.7	42.3	17,073.2
Additions	184.2	4,047.6	309.9	7.9	62.6	83.0	252.5	4.5	4,952.2
Disposals	(1.1)	(37.4)	(4.7)	(0.1)	(3.6)	(2.0)	(0.6)	0.9	(48.6)
Foreign currency translation	5.8	563.7	13.2	-	5.0	2.4	8.0	1.9	600.0
Depreciation	(29.3)	(2,953.0)	(220.3)	(8.0)	(21.2)	(42.0)	(79.1)	(13.1)	(3,366.0)
Disposal of subsidiaries (Note 33)	(13.8)	-	-	-	-	-	-	-	(13.8)
Impairments (Note 3)	-	(23.9)	(3.2)	-	(0.8)	(0.6)	(0.7)	(0.7)	(29.9)
Transfer between property, plant and equipment and finance lease receivables (Note 16)	-	-	-	-	2.0	-	-	-	2.0
Transfer to intangible assets/Asset category transfer (Note 11)	18.4	(34.3)	(32.2)	-	(2.3)	0.2	1.2	(0.5)	(49.5)
Closing balance	1,306.7	16,267.0	738.2	54.7	130.8	143.9	443.0	35.3	19,119.6

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Debt is collateralised over leasehold land and buildings and the fair value of the lease liability is R629.0 million (2007: R786.3 million; 2006: R911.5 million) (Note 21). A register with details of the cost price, cost of improvements and date of acquisition of all land and buildings is available for inspection at the registered office.

Land and buildings in which the Group occupies more than 25% of the floor space or when the primary purpose is the service and connection of Vodacom customers are classified as property, plant and equipment.

The estimated useful lives of depreciable property, plant and equipment are as follows:

	2006 years	2007 years	2008 years
General purpose buildings	50	50	50
Special purpose buildings	15	15	15 - 17
Infrastructure			
- Radio	1 - 10	1 - 10	1 - 10
- Intelligent Networks	5 - 8	5 - 8	4 - 8
- Switching	5 - 10	5 - 10	2 - 15
- Transmission	8	8	8 - 12
- Billing	5 - 6	5 - 6	3 - 8
- Value added services equipment	3 - 8	3 - 8	3 - 8
Community services	2 - 10	2 - 10	2 - 15
Information services	3 - 5	3 - 5	3 - 6
SIM centre	3 - 8	3 - 8	6 - 8
Office automation	3 - 5	3 - 5	3 - 5
Other assets			
- Motor vehicles	4	4	3 - 5
- Furniture and fittings	5	4 - 5	4 - 5
- Office equipment	4	4	2 - 6

The Group is required to measure the residual value of every item of property, plant and equipment. Management has determined that radio, transmission, switching, sim centres and community services categories of property, plant and equipment have no active market and the value of the asset at the end of its life would therefore be nil or insignificant.

The above categories are not exhaustive and will depend on the existence of an active market for the asset. The Group ensures that proper documentation exists to support the non-existence of an active market. For assets with an active market, confirmation of the residual values is received from third parties where the residuals are more than 10%. For residuals less than 10% the Group uses historical sales and management's best estimate.

During the current financial year the Group reviewed the estimated useful lives and residual values of property, plant and equipment. The review resulted in a increase of R6.7 million (2007: R14.7 million decrease) in the current year's depreciation charge.

The Group uses the following indicators to determine useful lives:

- Expected usage of the asset
- Expected physical wear and tear
- Technical or commercial obsolescence

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	Cost	Accumulated amortisation and impairment	Net book value
	Rm	Rm	Rm
11. INTANGIBLE ASSETS			
2006			
Goodwill	1,002.0	(518.1)	483.9
Licences	306.3	(186.6)	119.7
Trademark and patents	390.4	(132.5)	257.9
Customer bases	863.2	(700.3)	162.9
Computer software	2,375.6	(1,445.1)	930.5
	4,937.5	(2,982.6)	1,954.9
2007			
Goodwill	1,455.8	(524.6)	931.2
Licences	439.0	(229.2)	209.8
Trademark and patents	390.4	(169.8)	220.6
Customer bases	919.3	(760.3)	159.0
Computer software	2,827.5	(1,647.8)	1,179.7
	6,032.0	(3,331.7)	2,700.3
2008			
Goodwill	2,426.0	(529.4)	1,896.6
Licences	478.9	(269.3)	209.6
Trademark, patents and other*	445.3	(195.7)	249.6
Customer bases	920.4	(816.0)	104.4
Computer software	3,734.6	(1,970.7)	1,763.9
	8,005.2	(3,781.1)	4,224.1

* Other includes future benefits from provisioning of infrastructure and supply of non-mobile services.

	Goodwill	Licences	Trademark, patents and other*	Customer bases	Computer software	Total
	Rm	Rm	Rm	Rm	Rm	Rm
11. INTANGIBLE ASSETS (CONTINUED)						
Reconciliation 2006						
Opening balance	413.5	126.6	130.9	269.8	703.5	1,644.3
Contingent purchase consideration	36.2	-	-	-	-	36.2
Additions	-	3.3	-	-	438.8	442.1
Disposals	-	-	-	-	(1.6)	(1.6)
Foreign currency translation	(1.4)	(1.7)	-	-	(4.0)	(7.1)
Amortisation	-	(8.5)	(52.3)	(106.9)	(176.5)	(344.2)
Business combinations	35.6	-	179.3	-	-	214.9
Impairment of assets (Note 3)	-	-	-	-	(0.1)	(0.1)
Transfer to property, plant and equipment (Note 10)	-	-	-	-	(29.6)	(29.6)
Closing balance	483.9	119.7	257.9	162.9	930.5	1,954.9
Reconciliation 2007						
Opening balance	483.9	119.7	257.9	162.9	930.5	1,954.9
Additions	372.2	93.9	-	-	611.2	1,077.3
Disposals	-	-	-	-	(0.2)	(0.2)
Foreign currency translation	19.0	16.6	-	(0.4)	13.0	48.2
Amortisation	-	(20.4)	(37.3)	(60.0)	(341.7)	(459.4)
Business combinations	56.3	-	-	56.5	-	112.8
Impairment of assets (Note 3)	(0.2)	-	-	-	(0.1)	(0.3)
Transfer to property, plant and equipment (Note 10)	-	-	-	-	(33.0)	(33.0)
Closing balance	931.2	209.8	220.6	159.0	1,179.7	2,700.3
Reconciliation 2008						
Opening balance	931.2	209.8	220.6	159.0	1,179.7	2,700.3
Additions	949.2	3.0	54.9	-	963.9	1,971.0
Disposals	-	-	-	-	(0.9)	(0.9)
Foreign currency translation	16.2	11.1	-	1.0	21.1	49.4
Amortisation	-	(14.3)	(25.9)	(55.6)	(449.4)	(545.2)
Transfer from property, plant and equipment (Note 10)	-	-	-	-	49.5	49.5
Closing balance	1,896.6	209.6	249.6	104.4	1,763.9	4,224.1

* Other includes future benefits from provisioning of infrastructure and supply of non-mobile services.

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	2006 years	2007 years	2008 years
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11. INTANGIBLE ASSETS (CONTINUED)

The estimated useful lives of intangible assets are currently as follows:

- Mobile licences	5 - 30	5 - 30	8 - 30
- Trademarks, patents and other	5 - 15	10 - 15	10 - 14
- Computer software	2 - 8	2 - 8	2 - 8
- Internet service provider customers	-	3	8

	2006 months	2007 months	2008 months
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- Contract and prepaid mobile customers	36 - 60	36 - 96	53 - 119
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The company uses the following indicators to determine useful lives:

- Expected usage of the asset
- Expected physical wear and tear
- Technical or commercial obsolescence

The largest components of individual material intangibles relates to licences and trademarks and patents of the Group that have estimated remaining useful lives of between 11 to 16 (2007: 12 to 17) years and 8 to 10 (2007: 9 to 11) years respectively as at March 31, 2008. The licence and other intangible assets of Vodacom Tanzania Limited were pledged as security for the project finance funding obtained which expired at the end of the financial year (Note 21).

During the current financial year the Group reviewed the estimated useful lives of intangible assets. The review resulted in a decrease of R10.6 million (2007: R66.5 million decrease) in the current year's amortisation charge.

	2006 Short-term portion Rm	2006 Long-term portion Rm	2006 Total Rm	2007 Short-term portion Rm	2007 Long-term portion Rm	2007 Total Rm
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12. FINANCIAL ASSETS

Loans and receivables (Note 12.1)	-	92.1	92.1	16.2	114.4	130.6
Financial assets at fair value through profit or loss (Note 12.2)	149.3	-	149.3	191.3	-	191.3
Available-for-sale investments (Note 12.3)	-	-	-	-	95.1	95.1
	149.3	92.1	241.4	207.5	209.5	417.0

	2008 Short-term portion Rm	2008 Long-term portion Rm	2008 Total Rm
Loans and receivables (Note 12.1)	29.7	134.2	163.9
Financial assets at fair value through profit or loss (Note 12.2)	415.2	-	415.2
Available-for-sale investments (Note 12.3)	-	110.0	110.0
	444.9	244.2	689.1

	2006 Rm	2007 Rm	2008 Rm
12. FINANCIAL ASSETS (CONTINUED)			
12.1 Loans and receivables			
Planetel Communications Limited	42.1	49.6	-
<p>The loan with a nominal value of US\$6.8 million issued during the 2003 year bore interest at LIBOR plus 5%. Planetel Communications Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest were collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding, which expired at the end of the current financial year (Note 21). On November 30, 2007 Planetel Communications Limited sold its 16% shareholding in Vodacom Tanzania Limited to Mirambo Limited.</p>			
Caspian Limited	50.0	58.8	-
<p>The loan with a nominal value of US\$8.1 million issued during the 2003 year bore interest at LIBOR plus 5%. Caspian Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest were collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding, which expired at the end of the current financial year (Note 21). On November 30, 2007 Caspian Limited sold its 19% shareholding in Vodacom Tanzania Limited to Mirambo Limited.</p>			
Sekha-Metsi Investment Consortium Limited	-	16.2	-
<p>The loan was advanced to Sekha-Metsi Investment Consortium Limited and bore interest at South African overdraft interest rates plus a margin of 2%. Interest was payable monthly in arrears. The loan was repayable on demand, should Sekha-Metsi Investment Consortium be able to obtain a loan externally. Sekha-Metsi Investment Consortium Limited pledged their shares in Sekha-Metsi Enterprises (Proprietary) Limited as security for the loan. During the current financial year the loan was repaid.</p>			
Other	-	-	3.9
Balance carried forward	92.1	124.6	3.9

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	2006 Rm	2007 Rm	2008 Rm
12. FINANCIAL ASSETS (CONTINUED)			
12.1 Loans and receivables (continued)			
Balance brought forward	92.1	124.6	3.9
Number Portability Company (Proprietary) Limited	-	6.0	6.0
<p>The shareholders loan made to Number Portability Company (Proprietary) Limited ("NPC"), during the 2007 year, for an amount of R6.0 million, is subordinated and ranks behind all the claims of all creditors of NPC for repayment until such time as the assets of NPC fairly valued exceed its liabilities. In such case, the loan shall cease to be subordinated to the extent that the assets of NPC exceed its liabilities from time to time. The shareholder loan bears no interest and has no fixed repayment terms.</p>			
Mirambo Limited	-	-	120.9
<p>Mirambo Limited bought the 16% and 19% equity stake of Planetel Communications Limited and Caspian Limited respectively in Vodacom Tanzania Limited on November 30, 2007. The shareholder loans with a combined nominal value of US\$14.9 million, were transferred to Mirambo Limited in order to meet its obligations to Vodacom Tanzania Limited in respect of shareholder contributions. The loan bears interest at LIBOR plus 5% and shall be repaid from any cash distributions by Vodacom Tanzania Limited to Mirambo Limited. The loan and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over the shares of Vodacom Tanzania Limited.</p>			
WBS Holdings (Proprietary) Limited	-	-	25.8
<p>The loan with a nominal value of R25.5 million issued during the 2008 financial year bears interest at RSA prime minus 0.5%. The loan with capitalised interest is repayable from pre-determined cash flows of WBS Holdings (Proprietary) Limited pro rata to the shareholder's respective claims on loan account at the relevant time. WBS Holdings (Proprietary) Limited may not declare and/or pay any dividend or make any capital distribution to shareholders without the prior written consent of the existing shareholders.</p>			
Balance carried forward	92.1	130.6	156.6

	2006 Rm	2007 Rm	2008 Rm
12. FINANCIAL ASSETS (CONTINUED)			
12.1 Loans and receivables (continued)			
Balance brought forward	92.1	130.6	156.6
Empresa Moçambicana de Telecomunicações S.A.R.L. ("Emotel")	-	-	7.3
<p>The loan with a nominal value of US\$0.9 million issued during the 2008 financial year bears interest at LIBOR plus 2%. Interest is capitalised on a monthly basis. The loan and capitalised interest are repayable upon the expiry of 5 years following the advance date, being March 31, 2012. Emotel utilised this loan to meet its obligations to V.M, S.A.R.L. in respect of its 2% shareholding in VM, S.A.R.L. The loan and capitalised interest are collateralised by cession over all cash distributions and a pledge over their shares in V.M, S.A.R.L.</p>			
	92.1	130.6	163.9
Less: Short-term portion of loans and receivables			
Sekha-Metsi Investment Consortium Limited	-	(16.2)	-
WBS Holdings (Proprietary) Limited	-	-	(25.8)
Other	-	-	(3.9)
Short-term portion of loans and receivables	-	(16.2)	(29.7)
Long-term portion of loans and receivables	92.1	114.4	134.2

The fair value of the short-term portion of loans and receivables are R29.7 million (2007: R16.2 million; 2006: Rnil million). The fair value of the long-term portion of loans and receivables are not determinable due to the lack of repayment dates and/or market prices.

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	2006 Rm	2007 Rm	2008 Rm
12. FINANCIAL ASSETS (CONTINUED)			
12.2 Financial assets at fair value through profit or loss			
12.2.1 Financial assets held for trading			
12.2.1.1 Money market investments	111.7	135.7	107.9
The fair value of money market investments are derived from quoted market prices of identical assets.			
12.2.1.2 Derivative financial assets	37.6	55.6	307.3
Interest rate swap asset (Note 42)	37.6	27.7	17.4
Foreign exchange forward contracts assets	-	27.9	289.9
The fair value is determined using quoted market prices. The quoted market prices used to fair value foreign exchange forward contracts are the mid or mid forward rates at year end based on quoted market prices applicable to similar assets. Interest rate swaps are fair valued according to forward rates and discount rates determined from a yield curve derived from similar market traded instruments.			
Total financial assets held for trading	149.3	191.3	415.2
12.3 Available-for-sale investments			
12.3.1 Unlisted investments carried at fair value			
WBS Holdings (Proprietary) Limited	-	80.8	45.4
2,500 ordinary shares of R0.01 each			
The fair value was determined by applying the discounted cash flow method. The discount rates and terminal growth rates used ranged between 16.0% and 18.0% (2007: 15.0% and 17.0%) and 3.0% and 5.0% (2007: nil% and 3.0%), respectively.			
During the current financial year, R54.9 million was reclassified to intangible assets (Note 11).			
12.3.2 Unlisted investments carried at cost	-	14.3	64.6
During 2007 the Group purchased a 10% equity stake in G-Mobile Holdings Limited and a 25.93% equity stake in Gogga Tracking Solutions (Proprietary) Limited. The investee companies also granted the Group an option to increase these investments (Note 42). During 2008 the Group purchased a 50% equity stake in Waterberg Lodge (Proprietary) Limited, a 35% equity stake in XLink Communications (Proprietary) Limited and increased its interest in G-Mobile Holdings Limited from 10% to 26% by exercising the call option granted in 2007 (Note 42).			
Total available-for-sale investments	-	95.1	110.0

The carrying value of unlisted investments carried at cost approximate their fair value.

	2006 Rm	2007 Rm	2008 Rm
13. DEFERRED TAXATION			
Deferred taxation assets	297.6	386.1	455.1
Deferred taxation liabilities	(602.3)	(757.3)	(776.5)
	(304.7)	(371.2)	(321.4)
13.1 Components			
Capital allowances	(1,243.6)	(1,418.8)	(1,809.0)
Fair value adjustment of available-for-sale investments	-	-	(2.7)
Fair value adjustment of customer bases	(46.7)	(53.4)	(30.2)
Fair value adjustment of trademarks and patents	(56.4)	(47.9)	(41.8)
Fair value adjustment of properties	(2.0)	(2.0)	-
Foreign exchange	(22.9)	180.9	296.8
Foreign equity revaluation reserve	12.6	4.5	(12.3)
Prepayments and other allowances	10.8	(84.9)	(137.4)
Provisions and deferred income	797.2	1,006.0	1,194.4
Remeasurement of shareholders loans assets	32.5	29.5	3.4
Remeasurement of shareholders loans liabilities	(19.5)	(16.8)	(6.1)
Secondary taxation on companies credits	3.8	-	-
Taxation losses	223.1	25.1	223.5
Other	6.4	6.6	-
	(304.7)	(371.2)	(321.4)
13.2 Reconciliation			
Balance at the beginning of the year	(164.0)	(304.7)	(371.2)
Deferred taxation - income statement expense (Note 9)	(115.8)	(50.3)	71.9
Foreign equity revaluation reserve	0.7	(8.1)	(12.7)
Business combinations			
Acquisition of customer base	-	(17.5)	-
Acquisition of trademark and patents	(35.8)	-	-
Disposal of subsidiaries	-	-	1.8
Fair value adjustment of available-for-sale investments	-	-	(2.7)
Foreign exchange differences on consolidation of foreign subsidiaries	10.2	9.3	(8.6)
Other	-	0.1	0.1
Balance at the end of the year	(304.7)	(371.2)	(321.4)

Provision for taxation which could arise if undistributed retained profits of certain subsidiaries are remitted, is only made where a decision has been taken to remit such retained profits. The Group did not provide for Secondary Taxation on Companies ("STC") on its undistributed earnings which is payable when it declares dividends to its shareholders, as the taxation will only be payable once the dividends are declared.

Deferred tax is not raised at a rate other than the normal taxation rate as the intention of the Group is to hold assets for use and not for resale.

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	2006 Rm	2007 Rm	2008 Rm
13. DEFERRED TAXATION (CONTINUED)			
13.3 Utilisation of taxation losses			
Opening taxation loss	1,194.8	1,538.7	1,212.7
Foreign exchange movement on opening taxation loss	(142.3)	104.5	260.0
Prior year under/(over) statement	24.3	(129.7)	693.6
Current year taxation loss created/(utilised)	461.9	(300.8)	107.8
Closing taxation loss	1,538.7	1,212.7	2,274.1
Utilised to reduce net temporary differences	(662.3)	(78.4)	(818.3)
Vodacom Congo (taxation rate of 40%)	(244.1)	-	-
Vodacom Mozambique (taxation rate of 32%)	-	(78.4)	(73.4)
Vodacom Tanzania (taxation rate of 30%)	(418.2)	-	(744.9)
Taxation losses available to reduce deferred taxation	876.4	1,134.3	1,455.8
Taxation credit	-	-	268.1

There are estimated unused taxation losses to the value of R1,455.8 million (2007: R1,134.3 million; 2006: R876.4 million) available to reduce the net deferred taxation liability. If applied, the available R465.9 million (2007: R363.0 million; 2006: R279.4 million) would result in a full reduction of the current year's R318.6 million (2007: reduced to R8.2 million; 2006: reduced to R25.3 million) net deferred taxation liability. The unused taxation losses of Vodacom Mozambique are available for utilisation for a period of five years, after which they expire.

The R268.1 million taxation credit relating to Vodacom Mozambique expires in 2014.

The growth of the Group following its geographical expansion into non-South African countries over the past few years has made the estimation and judgment required in recognising and measuring deferred taxation balances more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependant on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated income statement and current taxation payments.

	2006 Rm	2007 Rm	2008 Rm
14. INVENTORY			
Merchandise	397.5	287.3	507.1
Other inventory	56.8	77.0	129.8
	454.3	364.3	636.9
Inventory carried at net realisable value	215.1	163.1	224.6

	2006 Rm	2007 Rm	2008 Rm
14. INVENTORY (CONTINUED)			
14.1 Inventory valuation allowance included above			
Balance at the beginning of the year	(62.8)	(78.0)	(97.6)
Foreign exchange movement on opening balance	0.7	(1.3)	(0.9)
Charged to cost and expenses	(15.9)	(18.3)	(0.2)
Balance at the end of the year	(78.0)	(97.6)	(98.7)

The cost of inventories recognised as an expense during the period is reflected as equipment cost (Note 2).

The cost of inventories recognised as an expense includes R0.3 million (2007: R35.7 million; 2006: R6.9 million) in respect of write downs of inventory to net realisable value, which has not been reduced (2007: R18.6 million; 2006: R2.3 million) in respect of the reversal of such write downs. Previous write downs have been reversed as a result of increased sale prices in certain markets.

	2006 Rm	2007 Rm	2008 Rm
15. TRADE AND OTHER RECEIVABLES			
Trade receivables	4,097.2	5,211.5	6,234.2
Prepayments	205.2	192.3	244.1
Value Added Taxation	88.1	147.7	200.3
Interest income receivable	41.5	51.3	76.1
Other	42.0	72.2	46.4
	4,474.0	5,675.0	6,801.1

The average credit period for March 2008, 2007 and 2006 on sales of goods and services is between 30 and 60 days (2007: 30 and 60 days; 2006: 30 and 60 days) from date of invoice for the South African operations and between 20 and 75 days (2007: 20 and 75 days; 2006: 20 and 75 days) from date of invoice for the non-South African operations. Generally no interest is charged on trade receivables. The Group has provided fully for all receivables over 120 days due (2007: 120 days due; 2006: 120 days due) for its South African operations and 90 days due (2007: 90 days due; 2006: 90 days due) for its non-South African operations because historical experience is such that receivables that are due beyond these days are generally not recoverable. Trade receivables of the South African operations due between 60 and 120 days (2007: 60 and 120 days; 2006: 60 and 120 days) are provided for based on estimated irrecoverable amounts, determined by reference to past default experience.

Before accepting any new individual customer, the Group uses an internal and external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The Group manually assesses the credit of corporate customers, using credit bureaus, financial standing as well as an internal grading system. Before accepting any new network operator customers, the Group enters into a contractual arrangement. The contractual arrangement is determined by regulatory requirements and industry norms. Of the trade receivable balance at the end of the year R1.3 billion (2007: R0.9 billion; 2006: R0.6 billion) is due from the Group's largest customer. There is no customer who represents more than 21.2% (2007: 17.6%; 2006: 15.7%) of the total balance of trade receivables.

The Group does not have any significant exposure to any individual customer or counter-party, except commercially to Telkom SA Limited, the Group's largest shareholder, Mobile Telecommunications Networks (Proprietary) Limited, the Group's largest competitor, Cell C (Proprietary) Limited, the country's third network operator and Vo-Call Cellular (Proprietary) Limited, the Group's largest dealer.

Trade receivables are stated at their cost which normally approximate their fair value due to short-term maturity.

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	2006 Rm	2007 Rm	2008 Rm
15. TRADE AND OTHER RECEIVABLES (CONTINUED)			
15.1 Doubtful receivable allowance			
The Group's South African trade receivables are stated after allowances for doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:			
Balance at the beginning of the year	(44.7)	(43.7)	(50.5)
Reversed from/(Charged to) profit and loss	1.0	(6.8)	12.6
Balance at the end of the year	(43.7)	(50.5)	(37.9)
The Group's non-South African trade receivables are stated after allowances for doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:			
Balance at the beginning of the year	(49.3)	(41.4)	(24.9)
Foreign exchange movement	2.9	(6.1)	(5.2)
(Charged to)/Reversed from profit and loss	5.0	22.6	(13.2)
Balance at the end of the year	(41.4)	(24.9)	(43.3)
In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.			

	2006 Rm	2007 Rm	2008 Rm
16. LEASE ASSETS			
Operating leases	30.6	35.1	20.1
Finance lease receivables	19.3	76.6	212.4
	49.9	111.7	232.5
Less: Short-term portion *			
Operating leases (Note 16.1)	-	-	(17.6)
Finance lease receivables (Note 16.2)	(13.1)	(32.9)	(122.9)
Short-term portion	(13.1)	(32.9)	(140.5)
Long-term portion of lease assets	36.8	78.8	92.0

* Short-term lease assets were included under trade and other receivables in prior years.

16.1 Operating leases

Operating lease payments are expensed in profit or loss on a straight-line basis over the lease term and results in the recognition of an operating lease asset.

	Within one year Rm	Between one and five years Rm	After five years Rm	Total Rm
16. LEASE ASSETS (CONTINUED)				
16.2 Finance lease receivables				
Staff benefits	3.9	7.5	-	11.4
Computers	119.0	82.0	-	201.0
Present value of minimum lease payments	122.9	89.5	-	212.4

The Group provides motor vehicles to certain of its executives. These executives may retain these assets at the end of the lease period, normally between three and four years. In terms of IAS 17: Leases ("IAS 17"), these arrangements are regarded as finance leases and the cost of the assets are capitalised as finance lease receivables and amortised on a straight-line basis over the period of the agreement to employee cost. The implicit interest rate is zero.

The Group provides laptop or desktop computers to certain customers who enter into contract agreements. The customers retain these computers at the end of the contract period. In terms of IAS 17, these arrangements are regarded as finance leases and accounted for using the effective interest rate method. The interest rate inherent in these leases is currently between nil% and 0.08% per annum.

The long-term portion of R89.5 million (2007: R43.7 million; 2006: R6.2 million) is reflected as part of non-current lease assets on the consolidated balance sheet.

All leases are denominated in South African Rand.

The fair value of the electronic equipment finance lease receivables approximate their carrying value.

	2006 R	2007 R	2008 R
17. ORDINARY SHARE CAPITAL			
Authorised			
100,000 ordinary shares of R0.01 each	1,000	1,000	1,000
Issued			
10,000 ordinary shares of R0.01 each	100	100	100

The unissued share capital is under the control of the current shareholders.

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	2006 Rm	2007 Rm	2008 Rm
18. NON-DISTRIBUTABLE RESERVES			
Foreign currency translations (Note 18.1)	(225.5)	(123.0)	(22.6)
Taxation on foreign currency translation reserve (Note 18.1)	18.0	9.9	(2.8)
Contingency reserve (Note 18.2)	13.5	15.7	17.4
Revaluation of available-for-sale investments (Note 18.3)	-	-	16.8
	(194.0)	(97.4)	8.8
Reconciliation			
Balance at the beginning of the year	(299.9)	(194.0)	(97.4)
Foreign currency translation reserve	103.9	94.4	87.7
Foreign currency translation for the year	98.2	102.5	100.4
Taxation for the year	5.7	(8.1)	(12.7)
Other non-distributable reserves			
Transferred from distributable reserves – contingency reserve	2.2	2.2	1.7
Revaluation of available-for-sale investments	(0.2)	-	16.8
Revaluation of available-for-sale investments for the year	(0.2)	-	19.5
Taxation for the year	-	-	(2.7)
Balance at the end of the year	(194.0)	(97.4)	8.8

18.1 Foreign currency translation reserve and taxation

The financial results of foreign operations are translated into South African Rands for incorporation into the consolidated results. Assets and liabilities are translated at the foreign exchange rates ruling at balance sheet date. Income, expenditure and cash flow items are translated at the actual foreign exchange rate or average foreign exchange rates for the period. All resulting unrealised foreign exchange differences are classified as equity.

This reserve also includes gains and losses on the translation of equity loans to foreign entities that are intended to be permanent.

Deferred taxation and normal taxation on the foreign currency translation reserve relates only to the translation of equity loans advanced to foreign subsidiaries.

18.2 Contingency reserve

In terms of the Short-term Insurance Act ("the Act") of 1998 the Group's cell captive partner, Centriq Insurance Company Limited is required to recognise a contingency reserve equal to 10% of premiums written less approved reinsurance, as defined in the Act. This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.

18.3 Revaluation of available-for-sale investments

Gains and losses from changes in the fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of (Note 12).

	2006 Rm	2007 Rm	2008 Rm
19. MINORITY INTERESTS			
Distributable reserves	358.1	268.5	408.5
Non-distributable reserves	(74.8)	(47.3)	(4.9)
	<u>283.3</u>	<u>221.2</u>	<u>403.6</u>
Reconciliation			
Balance at the beginning of the year	128.7	283.3	221.2
Profit allocated to minority interest	116.7	217.6	146.2
Foreign currency translation reserve	(15.6)	27.5	42.4
Revaluation of available-for-sale investments	(0.1)	-	-
Business combinations and other acquisitions	46.5	(136.4)	(6.1)
Minority shares of VM, S.A.R.L.	8.0	-	0.8
Disposal of subsidiaries	-	-	(0.3)
Dividend to minority shareholders	(0.9)	(170.8)	(0.6)
Balance at the end of the year	<u>283.3</u>	<u>221.2</u>	<u>403.6</u>
20. ANALYSIS OF RECOGNISED INCOME AND EXPENSES			
Gain/(Loss) on revaluation of available-for-sale investment	(0.3)	-	16.8
Foreign currency translation reserve	88.3	121.9	130.1
	<u>88.0</u>	<u>121.9</u>	<u>146.9</u>
Net profit/(loss) recognised directly in equity	5,142.8	6,560.0	7,957.6
Net profit for the year	<u>5,230.8</u>	<u>6,681.9</u>	<u>8,104.5</u>
Total recognised income and expense for the year			
Attributable to:			
Equity shareholders	5,129.8	6,436.8	7,915.9
Minority interests	101.0	245.1	188.6

	2006 Short-term portion Rm	2006 Long-term portion Rm	2006 Total Rm	2007 Short-term portion Rm	2007 Long-term portion Rm	2007 Total Rm
21. INTEREST BEARING DEBT						
Finance leases (Note 21.1)	79.2	728.3	807.5	113.6	615.0	728.6
Funding loans (Note 21.2)	1,527.3	90.9	1,618.2	365.5	1,436.4	1,801.9
Other short-term loans (Note 21.3)	39.0	-	39.0	21.9	-	21.9
	<u>1,645.5</u>	<u>819.2</u>	<u>2,464.7</u>	<u>501.0</u>	<u>2,051.4</u>	<u>2,552.4</u>

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	2008 Short-term portion Rm	2008 Long-term portion Rm	2008 Total Rm
21. INTEREST BEARING DEBT (CONTINUED)			
Finance leases (Note 21.1)	194.3	420.7	615.0
Funding loans (Note 21.2)	300.5	2,605.1	2,905.6
Other short-term loans (Note 21.3)	8.1	-	8.1
	<u>502.9</u>	<u>3,025.8</u>	<u>3,528.7</u>

	2006 Rm	2007 Rm	2008 Rm
21.1 Finance leases			
Vodacom (Proprietary) Limited	537.7	479.7	396.7
The finance leases are collateralised by various land and buildings with a book value of R464.2 million (2007: R477.3 million; 2006: R489.1 million), bearing interest at fixed effective interest rates of between 12.1% and 16.9% per annum and are repayable between one and five years. The residual payment on settlement date is R144.4 million.			
Vodacom Service Provider Company (Proprietary) Limited	269.8	248.9	218.3
The finance lease is collateralised by land and buildings with a book value of R245.5 million (2007: R251.1 million; 2006: R256.8 million), bearing interest at a fixed effective interest rate of 14.8% per annum. Payments are made every six months in arrears and commenced on March 1, 2002. The finance lease expires on September 1, 2011.			
	<u>807.5</u>	<u>728.6</u>	<u>615.0</u>
Less: Short-term portion of finance leases			
Vodacom (Proprietary) Limited	(58.3)	(83.0)	(151.7)
Vodacom Service Provider Company (Proprietary) Limited	(20.9)	(30.6)	(42.6)
	<u>(79.2)</u>	<u>(113.6)</u>	<u>(194.3)</u>
Short-term portion of finance leases			
	<u>728.3</u>	<u>615.0</u>	<u>420.7</u>
Long-term portion of finance leases			

All leases are denominated in South African Rand and are held with Rand Merchant Bank and Standard Bank.

The fair value of the Group's finance lease liability is R629.0 million (2007: R786.3 million; 2006: R911.5 million).

The fair value of finance leases are determined as the present value of all future cash flows discounted using market related interest rates. The discount rate used varied between 13.5% and 14.9% (2007: 11.3% and 13.3%; 2006: 10.0% and 13.3%).

The Vodaworld Retail Park is sub-leased to various Telecommunications retail companies. Sublease payments expected to be received under non-cancellable subleases at the balance sheet date amount to R4.0 million.

	2009	2010	2011	2012	2013	2014 onwards	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
21. INTEREST BEARING DEBT (CONTINUED)							
21.1 Finance Leases (continued)							
Repayment of finance leases							
Future minimum lease payments*	271.2	153.6	200.6	98.7	82.1	-	806.2
Finance costs	(76.9)	(55.1)	(39.0)	(15.2)	(5.0)	-	(191.2)
Net present value	194.3	98.5	161.6	83.5	77.1	-	615.0

* Future minimum lease payments include residual payments at the end of the lease term.

	2006 Rm	2007 Rm	2008 Rm
21.2 Funding Loans			
Planetel Communications Limited	41.6	53.5	-
<p>The shareholder loan of US\$8.4 million (2007: US\$8.4 million; 2006: US\$8.4 million) was subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, which expired at the end of the current financial year, bore no interest from April 1, 2002 and was thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 12) during the 2003 financial year. The gain on remeasurement was included in equity. On November 30, 2007 Planetel Communications Limited sold its 16% shareholding in Vodacom Tanzania Limited to Mirambo Limited.</p>			
Caspian Limited	49.3	63.6	-
<p>The shareholder loan of US\$10.0 million (2007: US\$10.0 million; 2006: US\$10.0 million) was subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bore no interest from April 1, 2002 and was thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. This loan became non-interest bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 12) during the 2003 financial year. The gain on remeasurement was included in equity. On November 30, 2007 Caspian Limited sold its 19% shareholding in Vodacom Tanzania Limited to Mirambo Limited.</p>			
Balance carried forward	90.9	117.1	-

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	2006 Rm	2007 Rm	2008 Rm
21. INTEREST BEARING DEBT (CONTINUED)			
21.2 Funding loans (continued)			
Balance brought forward	90.9	117.1	-
Project finance funding to Vodacom Tanzania Limited	184.0	94.9	-
<p>The funding was collateralised by a charge over 51% of the shares, the licence and Vodacom Tanzania Limited's tangible and intangible assets. The loans bore interest based upon the foreign currency denomination of the project financing between 6.0% and 14.4% per annum and was fully repaid by March 2008.</p> <p>The drawn down portions of the project finance funding from external parties included the following:</p> <p>(a) Netherlands Development Finance Company of US\$nil (2007: US\$3.8 million; 2006: US\$7.6 million);</p> <p>(b) Deutsche Investitions- und Entwicklungsgesellschaft mbH of €nil (2007: €3.9 million; 2006: €7.8 million);</p> <p>(c) Standard Corporate and Merchant Bank of US\$nil (2007: US\$4.0 million; 2006: US\$8.0 million);</p> <p>(d) Barclays Bank (Local Syndicate Tanzania) TSHnil (2007: TSHnil; 2006: TSH5,703.8 million).</p>			
Term loan to Vodacom International Limited	1,114.4	1,311.9	1,462.5
<p>The loan provided by Standard Bank Plc and RMB International (Dublin) Limited that amounts to US\$180.0 million (2007: US\$180.0 million; 2006: US\$180.0 million) is collateralised by guarantees provided by the Group. The loan, originally repayable on July 19, 2006, was refinanced during the 2007 financial year. The loan is now repayable on July 26, 2009 and bears interest at an effective interest rate of LIBOR plus 0.35%.</p>			
Balance carried forward	1,389.3	1,523.9	1,462.5

	2006 Rm	2007 Rm	2008 Rm
21. INTEREST BEARING DEBT (CONTINUED)			
21.2 Funding loans (continued)			
Balance brought forward	1,389.3	1,523.9	1,462.5
Mirambo Limited	-	-	142.6
<p>Mirambo Limited bought the 16% and 19% equity stake of Planetel Communications Limited and Caspian Limited respectively in Vodacom Tanzania Limited on November 30, 2007. The shareholder loans with a combined nominal value of US\$18.4 million, were transferred to Mirambo Limited in order to meet its obligations to Vodacom Tanzania Limited in respect of shareholder contributions. The loan bears interest at LIBOR + 5% and shall be repaid by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan and capitalised interest are unsecured and subordinated.</p>			
Asset Backed Arbitrated Securities (Proprietary) Limited	-	-	1,000.0
<p>On December 5, 2007 Vodacom (Proprietary) Limited entered into a subscription agreement with Asset Backed Arbitrated Securities (Proprietary) Limited ("ABACAS"). In terms of the agreement Vodacom (Proprietary) Limited issued debt instruments in the form of two promissory notes with a nominal value of R500.0 million each to which ABACAS subscribed. The debt instrument will bear interest based on JIBAR plus a credit margin and funding margin. The repayment term is three years with interest being paid quarterly. The credit margin is 0.4% and the funding margin is 0.18% and 0.15% respectively.</p>			
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	228.9	269.5	300.5
<p>The preference shares of US\$37.0 million (2007: US\$37.0 million; 2006: US\$37.0 million) bear interest at a rate of 4% per annum. The preference shares are redeemable at the discretion of the shareholders and on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.</p>			
Balance carried forward	1,618.2	1,793.4	2,905.6

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	2006 Rm	2007 Rm	2008 Rm
21. INTEREST BEARING DEBT (CONTINUED)			
21.2 Funding loans (continued)			
Balance brought forward	1,618.2	1,793.4	2,905.6
Sekha-Metsi Investment Consortium Limited	-	2.5	-
The shareholder loan bore no interest, was repayable in ten equal six monthly instalments commencing on September 30, 2006. Effective April 1, 2007 the repayment terms changed to four equal six monthly instalments. The loan was remeasured at amortised cost at a fixed effective interest rate of 13.7% during the 2007 financial year. The gain on remeasurement was included in equity.			
Number Portability Company (Proprietary) Limited	-	6.0	-
The Group's share of the shareholders loan provided, amounted to R6.0 million at March 31, 2007. The subordinated shareholder loan bore interest at the maximum rate of the prevailing South African prime rate or a lesser rate determined by the board of Number Portability Company (Proprietary) Limited. During the current period the loan became non-interest bearing (Note 22).			
	1,618.2	1,801.9	2,905.6
Less: Short-term portion of funding loans			
Project finance funding to Vodacom Tanzania Limited	(184.0)	(94.9)	-
Term loan to Vodacom International Limited	(1,114.4)	-	-
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	(228.9)	(269.5)	(300.5)
Sekha-Metsi Investment Consortium Limited	-	(1.1)	-
Short-term portion of funding loans	(1,527.3)	(365.5)	(300.5)
Long-term portion of funding loans	90.9	1,436.4	2,605.1
The fair value of funding loans are R2,933.2 million. The fair value of funding loans were determined by applying the discounted cash flow method, where applicable. A discount rate which varied between 12.2% and 12.3% were applied to ZAR denominated debt and 2.8% to US\$ denominated debt.			
21.3 Other short-term loans			
Vodacom Congo (RDC) s.p.r.l.	37.1	21.9	8.1
The short-term facilities amount to US\$1 million (2007: US\$3.0 million; 2006: US\$6.0 million) bears interest at 18% per annum with no fixed repayment terms. US\$2.0 million of these facilities was repaid on June 30, 2007 and bore interest at LIBOR plus 6% per annum.			
Other	1.9	-	-
	39.0	21.9	8.1

The fair value of other short-term loans approximate their carrying value.

	2006 Rm	2007 Rm	2008 Rm
22. NON-INTEREST BEARING DEBT			
Sekha-Metsi Investment Consortium Limited	4.3	-	-
The minority shareholder's loan was previously uncollateralised and no repayment terms were determined. During the 2007 financial year repayment terms were agreed and the loan was reclassified to interest bearing debt (Note 21).			
Minority shareholders of Smartcom (Proprietary) Limited	-	3.0	-
The minority shareholder's loan was repaid during the current financial year. The loan was unsecured and bore no interest.			
Number Portability Company (Proprietary) Limited	-	-	6.0
The Group's share of the shareholders loan provided, amounted to R6.0 million at March 31, 2007. The subordinated shareholder loan bore interest at the maximum rate of the prevailing South African prime rate or a lesser rate determined by the board of Number Portability Company (Proprietary) Limited and was classified as interest bearing debt (Note 21). During the current year the loan became non-interest bearing.			
	4.3	3.0	6.0
Less: Short-term portion of non-interest bearing debt			
Sekha-Metsi Investment Consortium Limited	(4.3)	-	-
	-	3.0	6.0
Long-term portion of non-interest bearing debt			
The fair value of non-interest bearing debt is not determinable as no repayment terms are set.			
23. PROVISIONS			
Deferred bonus incentive provision (Note 23.1)	452.4	500.7	497.4
Bonus provision (Note 23.2)	279.8	330.6	426.0
Leave pay provision (Note 23.3)	70.8	90.9	119.7
Warranty provision (Note 23.4)	32.8	-	-
Long-term incentive provision (Note 23.5)	122.1	161.2	225.2
Other (Note 23.6)	37.4	35.9	14.9
	995.3	1,119.3	1,283.2
Timing of Provisions			
Within one year	623.0	741.8	909.5
After one year	372.3	377.5	373.7
	995.3	1,119.3	1,283.2

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	Deferred bonus incentive provision Rm	Bonus provision Rm	Leave pay provision Rm	Warranty provision Rm	Long-term incentive provision Rm	Other Rm
23. PROVISIONS (CONTINUED)						
Reconciliation 2006						
Balance at the beginning of the year	423.9	203.1	58.3	28.2	-	65.9
Provision created	188.0	321.1	25.1	38.5	139.0	25.3
Provision utilised	(159.5)	(244.4)	(12.6)	(33.9)	(16.9)	(53.8)
Balance at the end of the year	452.4	279.8	70.8	32.8	122.1	37.4
Reconciliation 2007						
Balance at the beginning of the year	452.4	279.8	70.8	32.8	122.1	37.4
Provision created	191.6	380.2	24.7	-	39.1	29.2
Provision utilised	(143.3)	(329.4)	(4.6)	(32.8)	-	(30.7)
Balance at the end of the year	500.7	330.6	90.9	-	161.2	35.9
Reconciliation 2008						
Balance at the beginning of the year	500.7	330.6	90.9	-	161.2	35.9
Provision created	181.0	474.6	48.9	-	81.4	5.3
Provision utilised	(184.3)	(379.2)	(20.1)	-	(17.4)	(26.3)
Balance at the end of the year	497.4	426.0	119.7	-	225.2	14.9

Provisions are required to be recorded when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

Best estimates, being the amount that the Group would rationally pay to settle the obligation, are recognised as provisions at balance sheet date. Risks, uncertainties and future events are taken into account by management in determining the best estimates. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement. All provisions are reviewed at each balance sheet date.

Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that result in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down.

The Group records provisions for legal contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

23. PROVISIONS (CONTINUED)

23.1 Deferred bonus incentive provision

The deferred bonus incentive provision represents the present value of the expected future cash outflows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

The value of the bonus entitlements are determined based upon the audited consolidated annual financial statements of the Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision is utilised when eligible employees receive the value of vested entitlements.

23.2 Bonus provision

The bonus provision consists of a performance bonus based on the achievement of predetermined financial targets, payable to all levels of staff.

23.3 Leave pay provision

The leave pay provision relates to vested leave pay to which employees may become entitled upon leaving the employment of the Group. The provision arises as employees render a service that increases their entitlement to future compensated leave. The provision is utilised when employees who are entitled to leave pay, leave the employment of the Group or when the accrued leave due to an employee is utilised.

23.4 Warranty provision

The warranty provision covered manufacturing defects in the second year of warranty on handsets sold to customers. The estimate was based on claims notified and past experience. The suppliers of the various handsets assumed responsibility for the second year warranty subsequent to March 31, 2007 and accordingly there is no remaining provision.

23.5 Long-term incentive provision

The long-term incentive provision represents the present value of the expected future cash outflows to eligible employees that qualify. The amount of the liability is based on an actuarial valuation. The provision is utilised when eligible employees receive the value of vested benefits.

	2006 Rm	2007 Rm	2008 Rm
Net liability at beginning of the year	-	122.1	161.2
Interest cost	6.5	9.6	14.4
Current service cost	9.1	17.6	20.0
Recognised actuarial losses	123.4	13.3	62.3
Net cost	139.0	162.6	257.9
Total benefit payments	(16.9)	(1.4)	(32.7)
Net liability at end of the year	122.1	161.2	225.2
Key assumptions:			
General inflation rate (%)	4.7	5.1	6.6
Discount rate (%)	7.4	8.0	9.5
Salary inflation (%)	5.7	6.1	7.6
Valuation date	March 31, 2006	March 31, 2007	March 31, 2008

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23. PROVISIONS (CONTINUED)

23.6 Other

Other provisions for the Group include provisions for advertising support payments received from suppliers of handsets and various other smaller provisions. The advertising provision represents the advertising expenditure not yet incurred or claimed by the Group or external service providers.

	2006 Rm	2007 Rm	2008 Rm
24. OTHER NON-CURRENT LIABILITIES			
Operating lease liability (Note 24.1)	122.5	150.4	165.0
Licence obligation (Note 24.2)	-	90.7	96.2
	122.5	241.1	261.2
24.1 Operating lease liability	122.5	150.4	165.0
The value of the Group's operating lease liability is R165.0 million (2007: R150.4 million; 2006: R122.5 million). The liability is due to the recognition of the operating lease expense on a straight-line basis over the lease term (Note 37).			
24.2 Licence obligation	-	90.7	96.2
On December 9, 2004, ICASA amended the Vodacom South Africa licence to allow for access to the 1800 Megahertz frequency spectrum band and the 3G radio spectrum band.			
The costs to the Group for the 1800 Megahertz frequency spectrum band obligations is estimated at R68.8 million. The net present value, at a discount rate of 8%, over three years, amounts to R64.0 million (2007: R59.1 million; 2006: Rnil).			
The cost to the Group for the 3G radio spectrum band obligations is estimated at R36.8 million. The net present value, at a discount rate of 8%, over three years amounts to R32.2 million. (2007: R31.6 million; 2006: Rnil).			
	122.5	241.1	261.2
Less: Short-term portion of other non-current liabilities			
Operating lease liability	-	(0.3)	(7.1)
Licence obligation	-	(30.2)	(6.7)
Short-term portion of other non-current liabilities*	-	(30.5)	(13.8)
Long-term portion of other non-current liabilities	122.5	210.6	247.4

* The short-term portion of other non-current liabilities is included in trade payables (Note 25).

	2006 Rm	2007 Rm	2008 Rm
25. TRADE AND OTHER PAYABLES			
Trade payables*	3,315.4	4,021.3	4,876.5
Capital expenditure creditors	1,478.7	2,274.9	1,718.9
Value Added Taxation	100.3	121.9	82.7
Sundry accruals	89.4	110.8	359.9
Revenue charged in advance	64.2	34.2	28.6
Interest accrual	56.7	62.0	98.2
Put option liability #	-	249.3	396.5
	5,104.7	6,874.4	7,561.3

Trade payables are stated at their cost which normally approximate their fair value due to their short-term maturity.

The average credit period is between 30 and 60 days for the South African operations and between 45 and 105 days for the non-South African operations. No interest is charged on trade payables for the first 30 to 60 days from the date of invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

* Trade payables include the short-term portion of other non-current liabilities of R13,8 million (2007: R30,5 million) (Note 24).

The obligation to settle the Congolese Wireless Networks s.p.r.l. put option (Note 42) in cash gives rise to an obligation which represents a financial liability. The value of the liability amounted to Rnil as at March 31, 2006. During the current and previous financial years the liability was remeasured through the consolidated income statement.

	2006 Rm	2007 Rm	2008 Rm
26. CASH GENERATED FROM OPERATIONS			
Profit from operations	8,865.7	10,859.8	12,490.7
Adjusted for:			
Depreciation of property, plant and equipment and amortisation of intangible assets (Note 10 and Note 11)	2,995.8	3,361.2	3,911.2
Net loss/(profit) on disposal of property, plant and equipment and intangible assets	26.8	(26.9)	39.3
Net impairment recognised/(reversed) (Note 3)	(52.8)	22.9	29.9
Net profit on disposal of subsidiary	-	(17.4)	(8.0)
Other non-cash flow items	42.3	97.0	49.1
Cash flow from operations before working capital changes	11,877.8	14,296.6	16,512.2
Increase in trade and other receivables	(1,035.0)	(838.8)	(915.5)
(Increase)/Decrease in inventory	16.8	84.8	(259.3)
Increase in trade and other payables and provisions	230.7	323.5	996.1
Cash generated from operations	11,090.3	13,866.1	16,333.5
27. FINANCE COSTS PAID			
Finance costs as per the income statement	(246.0)	(369.3)	(681.3)
Interest accrual at the beginning of the year	(39.9)	(56.7)	(62.0)
Interest accrual at the end of the year	56.7	62.0	98.2
Other non-cash flow items	14.9	37.4	(24.5)
	(214.3)	(326.6)	(669.6)

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	2006 Rm	2007 Rm	2008 Rm
28. FINANCE INCOME RECEIVED			
Finance income per the income statement	129.9	74.5	72.3
Interest income receivable at the beginning of the year	35.7	41.5	51.3
Interest income receivable at the end of the year	(41.5)	(51.3)	(76.1)
Other non-cash flow items	-	(23.0)	26.8
	124.1	41.7	74.3
29. REALISED NET LOSSES ON REMEASUREMENT AND DISPOSAL OF FINANCIAL INSTRUMENTS			
Gains/(losses) on remeasurement and disposal of financial instruments as per the income statement	(523.1)	(169.0)	185.1
Unrealised (losses)/gains on foreign exchange forward contracts	294.6	(20.6)	(258.4)
Unrealised (losses)/gains on foreign liability and asset revaluation	204.3	(108.4)	(191.9)
Unrealised gains on interest rate swap revaluation	6.6	9.9	10.3
Unrealised put option liability revaluation	-	249.3	103.9
	(17.6)	(38.8)	(151.0)
30. TAXATION PAID			
Taxation per the income statement	(3,083.7)	(3,836.0)	(4,109.2)
Taxation payable at the beginning of the year	(632.6)	(630.2)	(1,112.7)
Taxation payable at the end of the year	630.2	1,112.7	580.5
Deferred taxation at the beginning of the year	(164.0)	(304.7)	(371.2)
Deferred taxation at the end of the year	304.7	371.2	321.4
Disposal of subsidiary – deferred taxation	-	-	1.8
Disposal of subsidiary – taxation payable	-	-	0.1
Business combination – deferred taxation	(35.8)	(17.5)	-
Business combination – taxation payable	(15.2)	-	-
Exchange difference on consolidation of foreign subsidiary	10.4	9.3	(17.1)
Movement due to foreign equity revaluation reserve	5.7	(8.1)	(12.9)
Fair value adjustment for available-for-sale investments	-	-	(2.7)
Remeasurement of shareholders loans	-	-	0.5
	(2,980.3)	(3,303.3)	(4,721.5)
31. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS			
Additions to property, plant and equipment and intangible assets (Note 10 and Note 11)	(5,141.5)	(7,214.4)	(6,923.2)
(Decrease)/Increase in capital expenditure related creditors	353.1	796.2	(591.5)
Licence obligation	-	90.7	5.5
Licence reallocation	-	-	46.9
Other non-cash flow items	-	-	(27.5)
Less: Goodwill acquired through increase in shareholding of existing subsidiaries			
Smartphone SP (Proprietary) Limited (Note 32.2.1)	-	313.2	931.2
Smartcom (Proprietary) Limited (Note 32.2.2)	-	8.2	18.0
Cointel V.A.S. (Proprietary) Limited (Note 32.2.3)	-	90.9	-
Goodwill allocated to Smartphone SP (Proprietary) Limited's minority shareholders	-	(40.1)	-
	(4,788.4)	(5,955.3)	(6,540.6)

	2006 Rm	2007 Rm	2008 Rm
32. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS			
Business combinations (Note 32.1)	(0.1)	(101.2)	-
Other acquisitions (Note 32.2)	-	(490.0)	(956.5)
	(0.1)	(591.2)	(956.5)
32.1 Business combinations			
InterConnect s.p.r.l. (Note 32.1.1)	-	(21.2)	-
Africell Cellular Services (Proprietary) Limited (Note 32.1.2)	-	(80.0)	-
Tiscali (Proprietary) Limited (Note 32.1.3)	0.3	-	-
Cointel V.A.S. (Proprietary) Limited (Note 32.1.4)	(0.4)	-	-
	(0.1)	(101.2)	-

32.1.1 InterConnect s.p.r.l.

Effective November 1, 2006 the Group acquired the internet service provider business of InterConnect s.p.r.l. The fair values of the assets and liabilities acquired were determined as follows:

Fair value of net assets acquired	-	(8.6)	-
Property, plant and equipment	-	2.5	-
Intangible assets	-	9.7	-
Inventory	-	0.3	-
Deferred taxation liability	-	(3.9)	-
Goodwill	-	(12.6)	-
Purchase price	-	(21.2)	-

The purchase price of R21.2 million (US\$2.8 million) (excluding capitalised costs) was paid on November 1, 2006.

Revenue amounting to R8.2 million (US\$1.2 million) and net profit of R2.8 million (US\$0.4 million) are included in the prior year results. It was impracticable to disclose the impact of the consolidated revenue and consolidated net profit for the full year ended March 31, 2007.

The goodwill related to the acquisition represents future synergies and is allocated to the Democratic Republic of Congo's cash-generating unit.

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	2006 Rm	2007 Rm	2008 Rm
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32. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS (CONTINUED)

32.1 Business combinations (continued)

32.1.2 Africell Cellular Services (Proprietary) Limited

Effective October 1, 2006 the Group acquired the cellular business of Africell Cellular Services (Proprietary) Limited. The fair value of the assets and liabilities acquired were preliminary determined as follows:

Fair value of net assets acquired	-	(36.3)	-
Property, plant and equipment	-	3.1	-
Intangible assets	-	46.8	-
Deferred taxation liability (including taxation effect on intangible assets)	-	(13.6)	-
Goodwill	-	(43.7)	-
Purchase price	-	(80.0)	-

The customer base was not previously recorded in the accounting records of Africell Cellular Services (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers in South Africa. It is impracticable to disclose the revenue and profit of the business that is included in the prior year's results as the customer base was integrated into Vodacom Service Provider Company (Proprietary) Limited. The profit and revenue related to these customers were not separately recorded. For this reason it would not be practicable to determine the impact on revenue and profits of the Group for a full year.

32.1.3 Tiscali (Proprietary) Limited

Effective February 1, 2005 the Group acquired the cellular business of Tiscali (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined as follows:

Fair value of net assets acquired	-	-	-
Contract customer base	-	-	-
Deferred taxation liability	-	-	-
Goodwill	0.3	-	-
Purchase price	0.3	-	-

The customer base was not previously recorded in the accounting records of Tiscali (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers in South Africa. It is impracticable to disclose the revenue and profit of the business that is included in the prior years results as the customer base was integrated into Vodacom Service Provider Company (Proprietary) Limited. The profit and revenue related to these customers were not separately recorded. For this reason it would not be practicable to determine the impact on revenue and profits of the Group for a full year.

	2006 Rm	2007 Rm	2008 Rm
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32. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS (CONTINUED)

32.1 Business combinations (continued)

32.1.4 Cointel V.A.S. (Proprietary) Limited

On August 1, 2005, the Group acquired a 51% interest in the equity of Cointel V.A.S. (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined by the Group as follows:

Fair value of net assets acquired	(94.9)	-	-
Property, plant and equipment	1.7	-	-
Intangible assets	179.3	-	-
Trade and other receivables	7.4	-	-
Cash and cash equivalents	83.9	-	-
Deferred taxation liability (including taxation effect on intangible assets)	(35.8)	-	-
Trade and other payables	(114.2)	-	-
Taxation payable	(15.2)	-	-
Provisions	(1.2)	-	-
Dividends payable	(11.0)	-	-
Minority interest	46.5	-	-
Goodwill	(35.9)	-	-
Purchase price (including capitalised costs)	(84.3)	-	-
Cash and cash equivalents	83.9	-	-
Cash consideration	(0.4)	-	-
The carrying value of the assets and liabilities at acquisition was as follows:	6.3	-	-
Non-current assets	56.7	-	-
Current assets	91.3	-	-
Non-current liabilities	(1.2)	-	-
Current liabilities	(140.5)	-	-

The purchase price of R83.6 million (excluding capitalised costs) was paid on August 23, 2005.

Revenue amounting to R89.9 million and net profit of R17.8 million were included in the 2006 year results. Restated consolidated revenue would have amounted to R34,062.5 million and restated consolidated net profit to R5,153.2 million if the entity had been consolidated for the full year ended March 31, 2006.

The goodwill related to the acquisition represents future synergies and is allocated to the South African cash-generating unit.

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	2006 Rm	2007 Rm	2008 Rm
32. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS (CONTINUED)			
32.2 Other acquisitions			
Smartphone SP (Proprietary) Limited and subsidiaries			
(Note 32.2.1)	-	(333.9)	(938.1)
Smartcom (Proprietary) Limited (Note 32.2.2)	-	(9.1)	(18.0)
Cointel V.A.S. (Proprietary) Limited (Note 32.2.3)	-	(147.0)	(0.4)
	-	(490.0)	(956.5)

32.2.1 Smartphone SP (Proprietary) Limited and subsidiaries

On August 31, 2007 the Group increased its interest in the equity of Smartphone SP (Proprietary) Limited from 70% to 100%, which at that time had a 88% shareholding in Smartcom (Proprietary) Limited, a 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited, a 52% shareholding in Ithuba Smartcall (Proprietary) Limited, a 100% shareholding in Cointel V.A.S. (Proprietary) Limited and a 90% shareholding in Smartcall Smartlife (Proprietary) Limited. The acquisition was accounted for using the parent entity extension method.

Minority interest	-	-	(6.1)
Goodwill	-	-	(931.2)
Purchase price (including capitalised cost)	-	-	(937.3)

The purchase price of R935.0 million was paid on September 3, 2007 and the capitalised costs of R2.3 million was paid on March 26, 2008.

On August 30, 2006, the Group acquired a further 19% interest in the equity of Smartphone SP (Proprietary) Limited, which had a 85.75% shareholding in Smartcom (Proprietary) Limited at the time, 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited and 52% shareholding in Ithuba Smartcall (Proprietary) Limited. The acquisition was accounted for using the parent entity extension method.

Minority interest acquired	-	(21.5)	-
Goodwill	-	(313.2)	-
Purchase price (including capitalised costs)	-	(334.7)	-
Capitalised cost (paid)/payable	-	0.8	(0.8)
Cash consideration	-	(333.9)	(0.8)

The purchase price of R333.9 million was paid in three tranches on October 3, 2006, January 16, 2007 and March 26, 2007. Capitalised costs of R0.8 million was paid on November 2, 2007. The outstanding amount accrued interest at 7.6% per annum from September 21, 2006 up to the date of payment.

	2006 Rm	2007 Rm	2008 Rm
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32. BUSINESS COMBINATIONS AND OTHER ACQUISITIONS (CONTINUED)

32.2 Other acquisitions (continued)

32.2.2 Smartcom (Proprietary) Limited

On September 1, 2007 the Group increased its interest in the equity of Smartcom (Proprietary) Limited from 88% to 100%. The acquisition was accounted for using the parent entity extension method.

Minority interest	-	-	-
Goodwill	-	-	(18.0)
Purchase price	-	-	(18.0)

The purchase price of R18.0 million was paid on September 6, 2007.

On September 13, 2006, the Group increased its interest in Smartcom (Proprietary) Limited to 88% by acquiring an additional 2.25% interest through its 70% owned subsidiary, Smartphone SP (Proprietary) Limited. The acquisition was accounted for using the parent entity extension method.

Minority interest	-	(0.9)	-
Goodwill	-	(8.2)	-
Purchase price	-	(9.1)	-

The purchase price of R9.1 million was paid in two instalments on February 21, 2007 and March 26, 2007.

32.2.3 Cointel V.A.S. (Proprietary) Limited

On October 4, 2006 the Group increased its interest to 100% by acquiring 49% from the minority shareholders. The purchase price of R147.0 million was paid on October 18, 2006 while the capitalised cost was paid on November 2, 2007. The acquisition was accounted for using the parent entity extension method.

Minority interest	-	(56.5)	-
Goodwill	-	(90.9)	-
Purchase price (including capitalised costs)	-	(147.4)	-
Capitalised cost (paid)/payable	-	0.4	(0.4)
Cash consideration	-	(147.0)	(0.4)

On October 9, 2006, Smartphone SP (Proprietary) Limited, acquired 100% shareholding of Cointel V.A.S. (Proprietary) Limited from Vodacom Group (Proprietary) Limited for R300.0 million.

As a result of the sale of Cointel V.A.S. (Proprietary) Limited from Vodacom Group (Proprietary) Limited to Smartphone SP (Proprietary) Limited, R38.0 million goodwill was realised, which resulted in the realisation of R17.4 million profit on consolidation.

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33. DISPOSAL OF SUBSIDIARIES			
Ithuba Smartcall (Proprietary) Limited (Note 33.1)	-	-	-
Stand 13 Eastwood Road Dunkeld (Proprietary) Limited (Note 33.2)	-	-	15.7
Smartcall Smartlife (Proprietary) Limited *	-	-	-
	-	-	15.7
33.1 Ithuba Smartcall (Proprietary) Limited			
On September 3, 2007, the Group disposed of its 52% interest in Ithuba Smartcall (Proprietary) Limited. The carrying value of the assets and liabilities disposed of were as follows:			
Carrying amount of net assets disposed of	-	-	0.1
Trade and other receivables	-	-	-
Cash and cash equivalents	-	-	0.1
Minority interest	-	-	(0.3)
Capital gain on disposal	-	-	0.3
Selling price	-	-	0.1
Cash and cash equivalents	-	-	(0.1)
Cash consideration	-	-	-
Selling price satisfied by:			
Cash	-	-	0.1
The consideration was received on September 6, 2007.			
33.2 Stand 13 Eastwood Road Dunkeld (Proprietary) Limited			
On September 3, 2007, the Group disposed of its 100% interest in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited. The carrying value of the assets and liabilities disposed of were as follows:			
Carrying amount of net assets disposed of	-	-	8.4
Property, plant and equipment	-	-	13.8
Deferred taxation	-	-	(1.8)
Cash and cash equivalents	-	-	0.4
Interest bearing debt	-	-	(3.9)
Taxation payable	-	-	(0.1)
Minority interest	-	-	-
Capital gain on disposal	-	-	7.7
Selling price	-	-	16.1
Cash and cash equivalents	-	-	(0.4)
Cash consideration	-	-	15.7
Selling price satisfied by:			
Cash	-	-	16.1

The consideration was received on September 6, 2007.

* On October 1, 2007, the Group disposed of its 90% interest in Smartcall Smartlife (Proprietary) Limited for R90. The carrying value of the assets and liabilities disposed amounted to R1,000.

	2006 Rm	2007 Rm	2008 Rm
34. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Bank and cash balances	3,146.1	771.4	977.6
Bank borrowings *	(1,385.8)	(879.2)	(2,596.8)
Bank borrowings classified as financing activities	-	-	2,456.0
	<u>1,760.3</u>	<u>(107.8)</u>	<u>836.8</u>

* Bank borrowings, excluding those used for financing activities, are regarded as part of the Group's integral cash management system.

The fair value of cash and cash equivalents normally approximate their carrying amount due to short-term maturity.

	2006 R	2007 R	2008 R
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35. EARNINGS AND DIVIDEND PER SHARE
35.1 Basic and diluted earnings per share

The calculation of basic earnings per ordinary share is based on earnings of R7,811.4 million (2007: R6,342.4 million; 2006: R5,026.1 million) and 10,000 issued ordinary shares (2007: 10,000; 2006: 10,000).

502,610	634,240	781,140
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Due to no dilution factors being present, basic earnings per share equals diluted earnings per share.

35.2 Dividend per share

The calculation of the dividend per ordinary share is based on a declared ordinary dividend of R5,940.0 million (2007: R5,400.0 million; 2006: R4,500.0 million) and 10,000 issued ordinary shares (2007: 10,000; 2006: 10,000).

The dividends were declared as follows:

Declared March 6, 2008 to shareholders registered on April 1, 2008 and paid on April 3, 2008 (Final)	-	-	319,000
Declared October 1, 2007 to shareholders registered on October 1, 2007 and paid on October 4, 2008 (Interim)	-	-	275,000
Declared March 14, 2007 to shareholders registered on April 2, 2007 and paid on April 4, 2007 (Final)	-	290,000	-
Declared September 7, 2006 to shareholders registered on October 2, 2006 and paid on October 4, 2006 (Interim)	-	250,000	-
Declared March 9, 2006 to shareholders registered on April 3, 2006 and paid on April 5, 2006 (Final)	280,000	-	-
Declared September 9, 2005 to all shareholders registered on October 1, 2005 and paid on October 3, 2005 (Interim)	170,000	-	-
	<u>450,000</u>	<u>540,000</u>	<u>594,000</u>

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36. CAPITAL COMMITMENTS			
Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:			
Vodacom (Proprietary) Limited	709.1	747.6	997.4
Vodacom Congo (RDC) s.p.r.l.	99.5	209.7	251.1
Vodacom Tanzania Limited	201.2	56.7	212.9
VM, S.A.R.L.	34.2	32.0	66.3
Vodacom Service Provider Company (Proprietary) Limited	16.9	14.8	48.4
Vodacom Group (Proprietary) Limited	222.9	120.7	23.4
	1,283.8	1,181.5	1,599.5

Capital expenditure commitments approved by the Board of Directors but not yet contracted for at the balance sheet date are as follows:

Vodacom (Proprietary) Limited	4,872.3	4,916.7	5,509.7
Vodacom Tanzania Limited	650.6	889.3	1,743.6
Vodacom Congo (RDC) s.p.r.l.	293.4	660.0	876.4
Vodacom Service Provider Company (Proprietary) Limited	164.7	277.7	254.0
Vodacom Lesotho (Proprietary) Limited	24.9	48.5	129.3
Vodacom Group (Proprietary) Limited	111.7	50.7	10.2
VM, S.A.R.L.	71.7	259.4	299.0
Vodacom International Limited (Mauritius)	-	-	0.2
Smartphone SP (Proprietary) Limited	15.2	12.2	-
Cointel V.A.S. (Proprietary) Limited	2.2	4.1	-
Skyprops 134 (Proprietary) Limited	-	16.6	-
	6,206.7	7,135.2	8,822.4

The capital expenditure of the Group will be financed through internal cash generation, extended supplier credit and bank credit.

	2006 Rm	2007 Rm	2008 Rm
37. OTHER COMMITMENTS			
Operating leases (Note 37.1)	6,845.6	2,765.2	4,570.9
Sport and marketing contracts (Note 37.2)	1,133.7	881.7	1,359.5
Other (Note 37.10)	-	-	94.0
	<u>7,979.3</u>	<u>3,646.9</u>	<u>6,024.4</u>

	Within one year Rm	Between one and five years Rm	After five years Rm	Total Rm
37.1 Operating leases				
Transmission and data lines GSM	385.0	1,055.1	172.8	1,612.9
Accommodation	149.6	620.3	903.0	1,672.9
Site rentals	186.0	560.0	510.0	1,256.0
Other operating leases	14.9	14.1	0.1	29.1
	<u>735.5</u>	<u>2,249.5</u>	<u>1,585.9</u>	<u>4,570.9</u>

The remaining lease term for transmission and data lines is between 1 and 5 years with a fixed price escalation clause per annum and various options to renew. The remaining lease term and escalation rate for office accommodation is between 1 and 15 years and between 3% and 13% per annum respectively with an option to renew for a further period. The remaining lease term and escalation rate for other accommodation is between 1 month and 18 years and between 6% and 12% per annum respectively with an option to renew. The remaining average lease term for site rentals is 5 years and the lease escalates annually on the anniversary date using fixed or consumer price index rates with an option to renew on the same terms and conditions.

	Within one year Rm	Between one and five years Rm	After five years Rm	Total Rm
37.2 Sport and marketing contracts	<u>563.6</u>	<u>789.4</u>	<u>6.5</u>	<u>1,359.5</u>

37.3 Service providers

Service provider agreements with the Group's independent service providers were extended for a further period of five years during the 2006 financial year.

37.4 Cellular licence fees

Network operators in the Group pay monthly licence fees based on their net operational income as defined in the licence agreement. Net operational income is defined as the total invoiced revenue of the licensee excluding discounts, Value Added Taxation and other direct taxes derived from customers of the licensee for the provision to them of the service, less net interconnect fees and bad debts actually incurred.

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37. OTHER COMMITMENTS (CONTINUED)

37.5 Global Alliance fees

The Group pays annual fees from February 18, 2005 for services provided to the Group by Vodafone Group Plc. The fee is calculated as a percentage of revenue and amounted to R303.9 million (2007: R249.8 million; 2006: R175.2 million).

37.6 Retention incentives

The Group has committed a maximum of R1,316.6 million (2007: R651.9 million; 2006: R456.0 million) in respect of customers already beyond their normal 24 month contract period, but who have not yet upgraded into new contracts, and therefore have not utilised the incentives available for such upgrades. The Group has not recognised the liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

37.7 Activation bonuses

The Group has a potential liability in respect of activation bonuses payable related to starter packs sold which have not yet been validated. The exposure is estimated at approximately R14.4 million (2007: R7.8 million; 2006: R8.9 million).

37.8 Activation commissions

The Group has a commitment to a maximum of R119.3 million (2007: R115.6 million; 2006: R141.7 million) in terms of activation commissions on gross prepaid connections in excess of the legal liability recorded in the financial statements.

37.9 Transmission and data lines

Effective April 1, 2006 most transmission and data line links were migrated to new BTS and Broadband agreements. The Group's commitment to Telkom SA Limited in respect of transmission line rentals of R914.9 million per annum may be adjusted downwards in the future depending on the Group's self-provisioning capabilities and the availability of alternative transmission players in the market place from whom the Group may source transmission on a competitive basis and as a result no future commitments are disclosed in Note 37.1.

	Within one year Rm	Between one and five years Rm	After five years Rm	Total Rm
37.10 Other	14.9	79.1	-	94.0

Included above are various other accommodation commitments.

	2006 Rm	2007 Rm	2008 Rm
38. CONTINGENCIES			
Various other legal matters	5.0	7.6	7.0

38.1 Negative working capital ratio

For the financial years ended March 31, 2008, 2007 and 2006 the Group had a negative working capital ratio. A negative working capital ratio arises when the Group's current liabilities are greater than the current assets. The Group's management believes that based on its operating cash flow, it will be able to meet liabilities as they arise and that it is in compliance with all covenants contained in the borrowing agreements.

38.2 Universal Service Obligation

The Group has a potential liability in respect of the 1800 MHz Universal Service Obligation in terms of the distribution costs relating to 2.5 million SIM cards.

38.3 Unresolved taxation matters

The Group is regularly subject to an evaluation, by the taxation authorities, of its direct and indirect taxation filings. The consequence of such reviews is that disputes can arise with the taxation authorities over the interpretation or application of certain taxation rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable for the Group. Additionally the resolution of the disputes could result in an obligation for the Group.

The Group has discussions with relevant taxation authorities on specific matters regarding the application and interpretation of taxation legislation affecting the Group and the industry in which it operates. No reliable assessment can be made at this time of any exposure, if any, that the Group may incur.

The Group has considered all matters in dispute with the taxation authorities and has assessed the deductibility of expenses initially disallowed for taxation purposes. Deferred taxation assets have only been recognised in this regard if it is probable that the Group will succeed in its disagreements with the taxation authorities.

38.4 Various legal contingencies

The Group is currently involved in various legal proceedings against it. Certain of these proceedings are long outstanding and many of these are employee related matters. The Group in consultation with its legal counsel has assessed the outcome of these proceedings and the likelihood that certain of these cases are not likely to be in the Group's favour. Following this assessment, the Group's management has determined that no provision is required in respect of these legal proceedings as at March 31, 2008.

38.5 Contingent asset

Litigation is being instituted for the recovery of certain fees paid by the Group. The information usually required by IAS 37: Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that a claim may be successful and that the amount recovered could be significant.

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38. CONTINGENCIES (CONTINUED)

38.6 Customer registration

The telecommunications industry in the Democratic Republic of the Congo is subject to a recently promulgated ministerial decree requiring the registration of the entire customer base of all network operators. This decree requires prescribed particulars of all customers to be obtained and maintained by June 30, 2008. The sanction for non-compliance by any operator who has not identified its customers in accordance with the requirements of this decree within three months from March 28, 2008 could result in:

- a fine equivalent to between US\$5 thousand and US\$10 thousand per customer; and
- suspension of the licence for a period not exceeding three months in the event of repetition; and
- suspension of the licence in the event of a likely disturbance of law and order/safety.

The Group is making every effort to obtain the required information but management believes it is unlikely that the Group will meet all the requirements as prescribed in this decree by June 30, 2008. Management is engaging with the relevant ministries on this matter and is presently unable to reliably assess the potential impact on the Group in the event of non-compliance with this decree.

39. RETIREMENT BENEFITS

All eligible employees of the Group are members of the Vodacom Group Pension Fund, a defined contribution pension scheme. Certain executive employees of the Group are also members of the Vodacom Executive Provident Fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. Current contributions to the pension fund amounted to R113.4 million (2007: R84.7 million; 2006: R76.4 million). Current contributions to the provident fund amounted to R13.5 million (2007: R12.7 million; 2006: R12.9 million). South African funds are governed in terms of the Pension Funds Act of 1956.

40. EVENTS SUBSEQUENT TO YEAR END

The Directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in the consolidated annual financial statements, which significantly affects the financial position of the company as at March 31, 2008 or the results of its operations or cash flows for the year ended, other than the following:

40.1 Broad Based Black Economic Empowerment ("BBBEE")

The Group is in the process of finalising a R7.5 billion BBBEE equity deal whereby strategic business partners, employees and the black public will have the opportunity to share in the success of Vodacom South Africa going forward.

40.2 Global Telematics SA (Proprietary) Limited

On October 26, 2007 Vodacom Service Provider Company (Proprietary) Limited ("VSPC"), entered into an agreement with Global Telematics SA (Proprietary) Limited ("Global Telematics"). In terms of the agreement GloCell Service Provider Company (Proprietary) Limited ("GSPC"), will cede, transfer and assign its agreements together with all of its obligations and its rights attaching to its customers connected to the Vodacom Network to Global Telematics. GSPC connects all voice contract customers and sells pre-paid starter packs on behalf of Global Telematics. VSPC will acquire the consolidated customer base from Global Telematics which will consist of active prepaid customers, active contract customers and active telemetry customers, subject to certain suspensive conditions. Once these suspensive conditions are met the transaction would be effective.

40.3 VM, S.A.R.L. trading as Vodacom Mozambique

Effective May 12, 2008 Vodacom International Limited sold 5% of its 90% owned equity investment in Vodacom Mozambique, leaving Vodacom International Limited with an 85% equity investment in Vodacom Mozambique. Certain suspensive conditions are to be met before the transaction will be effective.

	2006 Rm	2007 Rm	2008 Rm
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41. RELATED PARTY TRANSACTIONS

41.1 Balances with related parties

Related party transactions occur within the Group. Details of transactions entered into are as follows:

Included in accounts receivable			
Telkom SA Limited – Interconnect	509.7	699.3	761.7
Telkom SA Limited – Other	6.3	6.9	16.2
Vodafone Group Plc and subsidiaries	12.7	20.9	13.4
Transactions with entities in which related parties have an interest	-	-	37.1
Included in accounts payable			
Telkom SA Limited – Interconnect	(85.3)	(80.1)	(83.9)
Telkom SA Limited – Other	(16.5)	(41.3)	(23.2)
Vodafone Group Plc and subsidiaries	(4.7)	(6.4)	(328.1)
Transactions with entities in which related parties have an interest	-	(8.0)	(3.4)
Dividends payable			
Telkom SA Limited	(1,400.0)	(1,450.0)	(1,595.0)
Vodafone Holdings (SA) (Proprietary) Limited	(980.0)	(867.1)	(641.2)
Vodafone Telecommunications Investments (SA) (Proprietary) Limited	(420.0)	(582.9)	(953.8)

These outstanding balances are unsecured and will be settled in cash in the ordinary course of business. No guarantees or provision for doubtful debts have been recognised.

41.2 Transactions with related parties

Telkom SA Limited and subsidiaries

(Entity with joint control over the Group)

	(798.5)	(1,221.3)	(1,436.1)
Audit fees recovered	4.8	6.1	5.9
Cellular usage	37.0	45.6	54.0
Installation of transmission lines	(93.4)	(67.6)	(100.2)
Interconnect expense	(464.3)	(468.2)	(468.1)
Interconnect income	2,817.8	2,908.4	2,963.4
Interest paid – commercial	(0.1)	(0.1)	(0.2)
Lease of transmission lines	(752.1)	(839.0)	(928.2)
Other	4.8	(75.4)	41.1
Site costs	(26.3)	(30.9)	(40.0)
Telephone landline usage	(26.7)	(14.9)	(10.7)
Site rental income	10.8	14.7	16.9
Telkom prepaid vouchers	(60.8)	-	-
Dividend payable	(1,400.0)	(1,450.0)	(1,595.0)
Dividend paid	(850.0)	(1,250.0)	(1,375.0)

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	2006 Rm	2007 Rm	2008 Rm
41. RELATED PARTY TRANSACTIONS (CONTINUED)			
41.2 Transactions with related parties (continued)			
Vodafone Group Plc and subsidiaries	(192.0)	(338.2)	(417.9)
Roaming income	73.6	108.4	141.0
Roaming expense	(90.6)	(188.9)	(256.9)
Global alliance agreement	(175.2)	(249.8)	(303.9)
Other	0.2	(7.9)	1.9
Vodafone Holdings (SA) (Proprietary) Limited (Entity with joint control over the Group)	(1,575.0)	(1,614.6)	(1,194.0)
Dividend payable	(980.0)	(867.1)	(641.2)
Dividend paid	(595.0)	(747.5)	(552.8)
Vodafone Telecommunications Investments (SA) (Proprietary) Limited	(679.8)	(1,085.4)	(1,776.1)
Dividend payable	(420.0)	(582.9)	(953.8)
Dividend paid	(255.0)	(502.5)	(822.3)
Interest payments	(1.9)	-	-
Facility fees	(0.9)	-	-
Aircraft charter fees	(2.0)	-	-
Gogga Tracking Solutions (Proprietary) Limited	-	-	(4.8)
Prepaid contracts activations and upgrades	-	-	(4.8)
XLink Communications (Proprietary) Limited	-	-	(5.9)
Prepaid contracts activations and upgrades	-	-	(5.9)
Transactions with entities in which related parties have an interest	(20.3)	(40.6)	53.0
During the previous year the Group acquired a 10% shareholding in WBS Holdings (Proprietary) Limited for R80.8 million, a company in which a family member of a Group director has significant influence.			
41.3 Key management personnel compensation (excluding directors' emoluments)			
Key management personnel remuneration	(56.0)	(83.1)	(112.7)
Salaries and restraint of trade payments	(17.1)	(32.7)	(32.0)
Fringe benefits	(0.6)	(0.8)	(1.2)
Bonuses and incentives	(30.6)	(37.6)	(61.1)
Long-term benefits	(7.6)	(12.0)	(18.4)
Other	(0.1)	-	-
Included in key management personnel's remuneration	(2.2)	(3.8)	(8.6)
Pension fund employer contributions	(1.2)	(1.7)	(4.3)
Provident fund employer contributions	(0.6)	(1.7)	(3.5)
Medical aid employer contributions	(0.4)	(0.4)	(0.8)
Key management include Chief Officers and Group Executives.			

	2006 Rm	2007 Rm	2008 Rm
41. RELATED PARTY TRANSACTIONS (CONTINUED)			
41.4 Directors' emoluments			
Directors' remuneration	(96.7)	(76.7)	(86.5)
Executive directors – fees as directors: salaries and restraint of trade payments	(35.6)	(16.3)	(18.7)
Executive directors – fees as directors: fringe benefits	(0.7)	(1.2)	(0.6)
Executive directors – fees as directors: bonuses and incentives	(46.2)	(48.5)	(52.2)
Executive directors – long-term benefits	(13.6)	(8.5)	(13.6)
Non-executive directors – fees as directors	(0.6)	(2.2)	(1.4)
Included in directors' remuneration	(4.2)	(15.8)	(7.5)
Pension fund employer contributions	(0.5)	(8.3)	(2.5)
Provident fund employer contributions	(3.5)	(7.3)	(4.8)
Medical aid employer contributions	(0.2)	(0.2)	(0.2)
Directors' remuneration and emoluments paid and accrued by:	(96.7)	(76.7)	(86.5)
Vodacom Group (Proprietary) Limited	(77.1)	(64.8)	(71.2)
Subsidiaries	(19.6)	(11.9)	(15.3)

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

42.1 Categories of financial instruments

	Notes	Total Rm	At fair value through profit or loss: Held for trading Rm	Loans and receivables Rm	Available-for- sale financial assets Rm	Financial liabilities at amortised cost Rm	Finance lease receivables and payables Rm	Equity and non financial assets and liabilities Rm
2006								
Assets								
Non-current assets								
Property, plant and equipment	10	13,386.6	-	-	-	-	-	13,386.6
Intangible assets	11	1,954.9	-	-	-	-	-	1,954.9
Financial assets	12	92.1	-	92.1	-	-	-	-
Deferred taxation	13	297.6	-	-	-	-	-	297.6
Deferred cost		311.2	-	-	-	-	-	311.2
Lease assets	16	36.8	-	-	-	-	6.2	30.6
Current assets								
Deferred cost		451.8	-	-	-	-	-	451.8
Financial assets	12	149.3	149.3	-	-	-	-	-
Inventory	14	454.3	-	-	-	-	-	454.3
Trade and other receivables	15	4,474.0	-	4,180.7	-	-	-	293.3
Lease assets	16	13.1	-	-	-	-	13.1	-
Cash and cash equivalents	34	3,146.1	-	3,146.1	-	-	-	-
Total assets		24,767.8	149.3	7,418.9	-	-	19.3	17,180.3
Equity								
Ordinary share capital	17	*	-	-	-	-	-	*
Retained earnings		8,583.0	-	-	-	-	-	8,583.0
Non-distributable reserves	18	(194.0)	-	-	-	-	-	(194.0)
Equity attributable to equity holders of the parent								
Minority interests	19	283.3	-	-	-	-	-	283.3
Total equity		8,672.3	-	-	-	-	-	8,672.3
Non-current liabilities								
Interest bearing debt	21	819.2	-	-	-	90.9	728.3	-
Deferred taxation	13	602.3	-	-	-	-	-	602.3
Deferred revenue		320.3	-	-	-	-	-	320.3
Provisions	23	372.3	-	-	-	-	-	372.3
Other non-current liabilities	24	122.5	-	-	-	-	-	122.5
Current liabilities								
Trade and other payables	25	5,104.7	-	-	-	4,940.2	-	164.5
Deferred revenue		1,604.5	-	-	-	-	-	1,604.5
Taxation payable		630.2	-	-	-	-	-	630.2
Non-interest bearing debt	22	4.3	-	-	-	4.3	-	-
Interest bearing debt	21	1,645.5	-	-	-	1,566.3	79.2	-
Provisions	23	623.0	-	-	-	-	-	623.0
Dividends payable		2,800.0	-	-	-	2,800.0	-	-
Derivative financial liabilities	42	60.9	60.9	-	-	-	-	-
Bank borrowings	34	1,385.8	-	-	-	1,385.8	-	-
Total liabilities		16,095.5	60.9	-	-	10,787.5	807.5	4,439.6
Total equity and liabilities		24,767.8	60.9	-	-	10,787.5	807.5	13,111.9

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.1 Categories of financial instruments (continued)

	Notes	Total Rm	At fair value through profit or loss: Held for trading Rm	Loans and receivables Rm	Available-for- sale financial assets Rm	Financial liabilities at amortised cost Rm	Finance lease receivables and payables Rm	Equity and non financial assets and liabilities Rm
2007								
Assets								
Non-current assets								
Property, plant and equipment	10	17,073.2	-	-	-	-	-	17,073.2
Intangible assets	11	2,700.3	-	-	-	-	-	2,700.3
Financial assets	12	209.5	-	114.4	95.1	-	-	-
Deferred taxation	13	386.1	-	-	-	-	-	386.1
Deferred cost		396.4	-	-	-	-	-	396.4
Lease assets	16	78.8	-	-	-	-	43.7	35.1
Current assets								
Deferred cost		574.8	-	-	-	-	-	574.8
Financial assets	12	207.5	191.3	16.2	-	-	-	-
Inventory	14	364.3	-	-	-	-	-	364.3
Trade and other receivables	15	5,675.0	-	5,334.9	-	-	-	340.1
Lease assets	16	32.9	-	-	-	-	32.9	-
Cash and cash equivalents	34	771.4	-	771.4	-	-	-	-
Total assets		28,470.2	191.3	6,236.9	95.1	-	76.6	21,870.3
Equity								
Ordinary share capital	17	*	-	-	-	-	-	*
Retained earnings		9,523.2	-	-	-	-	-	9,523.2
Non-distributable reserves	18	(97.4)	-	-	-	-	-	(97.4)
Equity attributable to equity holders of the parent								
Minority interests	19	221.2	-	-	-	-	-	221.2
Total equity		9,647.0	-	-	-	-	-	9,647.0
Non-current liabilities								
Interest bearing debt	21	2,051.4	-	-	-	1,436.4	615.0	-
Non-interest bearing debt	22	3.0	-	-	-	3.0	-	-
Deferred taxation	13	757.3	-	-	-	-	-	757.3
Deferred revenue		412.3	-	-	-	-	-	412.3
Provisions	23	377.5	-	-	-	-	-	377.5
Other non-current liabilities	24	210.6	-	-	-	-	-	210.6
Current liabilities								
Trade and other payables	25	6,874.4	-	-	-	6,688.0	-	186.4
Deferred revenue		1,904.8	-	-	-	-	-	1,904.8
Taxation payable		1,112.7	-	-	-	-	-	1,112.7
Interest bearing debt	21	501.0	-	-	-	387.4	113.6	-
Provisions	23	741.8	-	-	-	-	-	741.8
Dividends payable		2,990.0	-	-	-	2,990.0	-	-
Derivative financial liabilities	42	7.2	7.2	-	-	-	-	-
Bank borrowings	34	879.2	-	-	-	879.2	-	-
Total liabilities		18,823.2	7.2	-	-	12,384.0	728.6	5,703.4
Total equity and liabilities		28,470.2	7.2	-	-	12,384.0	728.6	15,350.4

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.1 Categories of financial instruments (continued)

	Notes	Total Rm	At fair value through profit or loss: Held for trading Rm	Loans and receivables Rm	Available-for- sale financial assets Rm	Financial liabilities at amortised cost Rm	Finance lease receivables and payables Rm	Equity and non financial assets and liabilities Rm
2008								
Assets								
Non-current assets								
Property, plant and equipment	10	19,119.6	-	-	-	-	-	19,119.6
Intangible assets	11	4,224.1	-	-	-	-	-	4,224.1
Financial assets	12	244.2	-	134.2	110.0	-	-	-
Deferred taxation	13	455.1	-	-	-	-	-	455.1
Deferred cost		333.3	-	-	-	-	-	333.3
Lease assets	16	92.0	-	-	-	-	89.5	2.5
Current assets								
Deferred cost		705.9	-	-	-	-	-	705.9
Financial assets	12	444.9	415.2	29.7	-	-	-	-
Inventory	14	636.9	-	-	-	-	-	636.9
Trade and other receivables	15	6,801.1	-	6,356.7	-	-	-	444.4
Lease assets	16	140.5	-	-	-	-	122.9	17.6
Cash and cash equivalents	34	977.6	-	977.6	-	-	-	-
Total assets		34,175.2	415.2	7,498.2	110.0	-	212.4	25,939.4
Equity								
Ordinary share capital	17	*	-	-	-	-	-	*
Retained earnings		11,392.9	-	-	-	-	-	11,392.9
Non-distributable reserves	18	8.8	-	-	-	-	-	8.8
Equity attributable to equity holders of the parent								
Minority interests	19	403.6	-	-	-	-	-	403.6
Total equity		11,805.3	-	-	-	-	-	11,805.3
Non-current liabilities								
Interest bearing debt	21	3,025.8	-	-	-	2,605.1	420.7	-
Non-interest bearing debt	22	6.0	-	-	-	6.0	-	-
Deferred taxation	13	776.5	-	-	-	-	-	776.5
Deferred revenue		358.8	-	-	-	-	-	358.8
Provisions	23	373.7	-	-	-	-	-	373.7
Other non-current liabilities	24	247.4	-	-	-	-	-	247.4
Current liabilities								
Trade and other payables	25	7,561.3	-	-	-	7,443.3	-	118.0
Deferred revenue		2,229.9	-	-	-	-	-	2,229.9
Taxation payable		580.5	-	-	-	-	-	580.5
Interest bearing debt	21	502.9	-	-	-	308.6	194.3	-
Provisions	23	909.5	-	-	-	-	-	909.5
Dividends payable		3,190.0	-	-	-	3,190.0	-	-
Derivative financial liabilities	42	10.8	10.8	-	-	-	-	-
Bank borrowings	34	2,596.8	-	-	-	2,596.8	-	-
Total liabilities		22,369.9	10.8	-	-	16,149.8	615.0	5,594.3
Total equity and liabilities		34,175.2	10.8	-	-	16,149.8	615.0	17,399.6

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT

The Group purchases or issues financial instruments in order to finance its operations and to manage market risks (foreign currency risk, interest rate risk and price risk) that arise from its operations and sources of finances. Various financial assets and liabilities for example trade and other receivables and trade and other payables, arise directly from the Group's operations. Changing market conditions expose the Group to various financial risks and have highlighted the importance of financial risk management as an element of control for the Group. Principal financial risk faced in the normal course of the Group's business are market risks (foreign currency risk, interest rate risk and price risk), credit risk, liquidity risk and insurance risk.

A treasury function within Vodacom Group (Proprietary) Limited provides treasury and related services to the Group, including co-ordinating access to domestic and international financial markets, and the managing of various risks relating to the Group's operations.

Treasury operations are conducted within a framework of approved policies and guidelines that are continuously monitored by management and the Board of Directors, through the audit committee, the objective being to minimise exposure to market risks (foreign currency risk, interest rate risk and price risk) and liquidity risk. These risks are managed, subject to the limitation of the local markets in which the various Group companies operate in and the South African Reserve Bank Regulations.

The Group uses a number of derivative instruments that are transacted for risk management purposes only. The Group does not trade in financial instruments for speculative purposes.

The Group finances its operations through a mixture of retained profits, bank borrowings and long-term loans. Long-term financing is arranged locally by the South African entities.

There has been no significant change during the financial year, or since the end of the financial year, to the types of financial risks faced by the Group, the approach to the measurement of these financial risks or the objectives, policies and processes for managing these financial risks.

42.2.1 Market risk management

The Group's activities expose it primarily to the risks of fluctuations in foreign currency exchange rates (Note 42.2.1.1), interest rates (Note 42.2.1.2) and equity prices (Note 42.2.1.3).

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk.

The Group enters into various derivative financial instruments to manage its exposure to interest rate risk and foreign currency risk, including:

- foreign exchange forward contracts to manage the exchange rate risk arising on foreign denominated transactions; and
- interest rate swaps to manage the risk of rising interest rates on borrowings.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how profit before taxation and equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.1 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence the Group has a policy to hedge foreign exchange risks on transactions denominated in other currencies above certain de minimis levels.

It is the Group's policy to enter into foreign exchange forward contracts to buy and/or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The contracts are entered into to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies primarily from purchase of capital equipment and to a lesser extent operating expenditure.

The Group has entered into numerous foreign exchange forward contracts to cover foreign capital commitments in respect of future imports of infrastructure.

The total fair value for foreign exchange forward contracts at year end was:

	2006 Rm	2007 Rm	2008 Rm
Foreign currency asset			
To buy	-	27.8	289.9
To sell	-	0.1	-
	-	27.9	289.9
Foreign currency liability			
To buy	(60.9)	(6.9)	-
To sell	-	(0.3)	(10.8)
	(60.9)	(7.2)	(10.8)

The following table details the foreign exchange forward contracts outstanding at year end:

	Foreign contract value Mil	Forward value Rm	Fair value Rm
Forward contracts to buy foreign currency			
2006			
United States Dollars	7.1	45.0	(0.7)
Euro	154.8	1,208.6	(34.5)
Pound Sterling	41.7	477.8	(25.7)
Swiss Franc	*	0.1	*
		1,731.5	(60.9)
2007			
United States Dollars	32.0	240.5	(6.9)
Euro	187.2	1,815.0	21.2
Pound Sterling	32.3	457.3	6.6
Swiss Franc	0.2	1.3	*
Australian Dollar	*	0.3	*
		2,514.4	20.9

Forward value represents the foreign contract value multiplied by the contract forward exchange rate.

* Amount less than 50 000 of the currency.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.1 Foreign currency risk management (continued)

	Foreign contract value Mil	Forward value Rm	Fair value Rm
Forward contracts to buy foreign currency (continued)			
2008			
United States Dollars	31.3	253.0	2.9
Euro	157.1	1,806.4	249.5
Pound Sterling	19.9	288.0	37.5
Swiss Franc	0.2	1.4	*
Australian Dollar	0.6	4.5	*
		2,353.3	289.9
Forward contracts to sell foreign currency			
2006			
United States Dollars	0.1	0.8	*
Euro	4.0	30.3	*
Pound Sterling	0.3	3.2	*
Swiss Franc	*	0.1	*
		34.4	*
2007			
United States Dollars	*	0.2	*
Euro	4.4	43.2	0.1
Pound Sterling	3.9	55.7	(0.3)
		99.1	(0.2)
2008			
United States Dollars	0.6	5.0	*
Euro	7.7	89.3	(10.6)
Pound Sterling	0.7	10.7	(0.2)
Australian Dollar	0.3	2.1	*
		107.1	(10.8)

Forward value represents the foreign contract value multiplied by the contract forward exchange rate.

* Amount less than 50 000 of the currency.

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.1 Foreign currency risk management (continued)

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different functional currencies of each entity within the Group.

	South African Rand Rm	Euro Rm	Pound Sterling Rm	United States Dollar Rm	Congolese Franc Rm	Swiss Franc Rm	Other Rm
2006							
Net foreign currency monetary assets/(liabilities)							
Functional currency of company operation							
South African Rand	-	(850.5)	(330.4)	45.0	-	(0.2)	(0.8)
United States Dollar	(55.9)	(26.2)	-	-	(11.4)	(0.1)	38.0
Tanzanian Shilling	4.7	(13.6)	-	106.9	-	-	-
Mozambican Meticals	(0.2)	-	-	-	-	-	-
	(51.4)	(890.3)	(330.4)	151.9	(11.4)	(0.3)	37.2
2007							
Net foreign currency monetary assets/(liabilities)							
Functional currency of company operation							
South African Rand	-	(1,387.0)	(331.4)	(102.2)	-	(0.3)	2.4
United States Dollar	51.5	(49.9)	0.1	-	(3.2)	(0.4)	(30.8)
Tanzanian Shilling	3.4	10.9	-	21.0	-	-	-
Mozambican Meticals	(33.7)	(0.3)	-	2.2	-	-	-
	21.2	(1,426.3)	(331.3)	(79.0)	(3.2)	(0.7)	(28.4)
2008							
Net foreign currency monetary assets/(liabilities)							
Functional currency of company operation							
South African Rand	-	(1,191.5)	(265.2)	(205.9)	-	(3.5)	(3.4)
United States Dollar	-	15.2	-	-	(34.1)	(0.3)	(0.1)
Tanzanian Shilling	7.1	38.3	-	67.4	-	-	-
Mozambican Meticals	(27.2)	(0.1)	-	(14.5)	-	-	-
	(20.1)	(1,138.1)	(265.2)	(153.0)	(34.1)	(3.8)	(3.5)

In terms of the Group's policy the net currency exposure is managed in terms of foreign exchange forward contracts to buy and sell specified amounts of various foreign currencies in the future at pre-determined exchange rates.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.1 Foreign currency risk management (continued)

Foreign currency sensitivity analysis:

The Group is mainly exposed to the currencies mentioned below and to a lesser extent exposed to the following currencies: Australian Dollar, Tanzanian Shilling, Mozambican Meticals, Mauritian Rupee and Lesotho Maloti which have been combined as "Other" in the table below.

The following tables detail the Group's sensitivity to the below-mentioned percentage strengthening and weakening in the functional currency against the relevant foreign currencies. This percentage is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A reasonable possible change in prevailing African and non-African foreign currency exchange rates are based upon 12 month forward mid rates as published by Reuters and 12 month forward mid rates as published by Standard Bank respectively.

The sensitivity analysis includes only outstanding foreign-denominated monetary items and adjusts their translations at the period end for the specified percentage change in foreign currency rates.

A positive number below indicates an increase in profit before taxation where the functional currency is expected to strengthen against the relevant currency in a net financial liability position.

A negative number below indicates an decrease in profit before taxation where the functional currency is expected to strengthen against the relevant currency in a net financial asset position.

For the same percentage weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on the profit before taxation.

There were no changes in the methods and assumptions used in preparing the foreign currency sensitivity analysis.

	South African Rand %	Euro %	Pound Sterling %	United States Dollar %	Congolese Franc %	Swiss Franc %	Other %
2006							
Functional currency							
South African Rands	-	29.3	32.5	17.7	11.8	20.4	13.7 - 24.6
United States Dollar	17.7	9.8	12.5	-	31.6	6.3	1.5 - 11.3
Tanzanian Shilling	13.7	11.5	14.3	1.5	22.8	8.4	3.9
Mozambican Meticals	17.0	7.4	10.0	2.2	34.6	4.4	3.9
Profit before taxation (Rm)	3.2	(16.9)	(38.3)	4.1	(2.8)	(0.2)	(1.0)
2007							
Functional currency							
South African Rands	-	31.9	13.1	11.5	12.8	26.6	11.0 - 21.0
United States Dollar	11.5	18.3	1.4	-	2.7	18.1	0.8 - 19.8
Tanzanian Shilling	11.0	17.4	0.6	0.8	2.0	21.2	8.1
Mozambican Meticals	17.7	8.6	6.9	8.2	6.0	12.1	8.1
Profit before taxation (Rm)	6.3	(36.8)	(2.6)	2.1	0.1	-	0.2
2008							
Functional currency							
South African Rands	-	7.6	6.5	9.5	-	8.3	0.1 - 11.0
United States Dollar	9.5	5.1	2.6	-	10.0	5.5	5.0 - 10.0
Tanzanian Shilling	11.0	7.5	5.0	2.5	-	-	-
Mozambican Meticals	0.1	3.8	6.5	9.4	-	-	-
Profit before taxation (Rm)	0.2	(54.4)	(1.0)	(7.7)	2.7	-	(0.6)

The closing exchange rates against the South African Rand in the current and prior years are as follows:

	2006	2007	2008
United States Dollar	6.2	7.3	8.1
Tanzanian Shilling	198.0	170.8	152.0
Mozambican Meticals	4.4	3.6	3.0

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.2 Interest rate risk management

The Group's interest rate profile consists of fixed and floating rate loans and bank balances which exposes the Group to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	2006 Rm	2007 Rm	2008 Rm
Financial liabilities			
Loans received and bank borrowings at fixed rates of interest	(1,134.5)	(1,184.5)	(934.8)
Loans received and bank borrowings linked to South African prime rates	(1,361.8)	(823.5)	(40.1)
Loans received and bank borrowings linked to Lesotho prime rates	(7.5)	(3.0)	(24.4)
Loans received and bank borrowings linked to LIBOR	(1,286.2)	(1,382.8)	(1,670.2)
Loans received and bank borrowings linked to EURIBOR	(58.6)	(37.9)	-
Loans received and bank borrowings linked to RSA money market rates	-	-	(2,456.0)
Loans received and bank borrowings linked to JIBAR	-	-	(1,000.0)
Finance leases linked to fixed rates	(807.5)	(728.6)	(615.0)
	(4,656.1)	(4,160.3)	(6,740.5)
Financial assets			
Loans granted and bank deposits at fixed rates of interest	168.1	194.2	496.1
Loans granted and bank deposits linked to money market rates	471.0	537.0	421.5
Loans granted and bank deposits linked to South African prime rates	2,603.1	180.5	74.1
Interest rate swaps linked to RSA BA rate	37.6	27.7	17.4
Loans granted and bank deposits linked to LIBOR	94.2	126.0	128.2
Loans granted and bank deposits linked to Lesotho prime rates	13.5	-	116.3
Loans granted and bank deposits linked to RSA BA rate	-	-	18.4
Finance leases linked to fixed rates	19.3	76.6	212.4
	3,406.8	1,142.0	1,484.4

The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Interest rate swap contracts

The Group has entered into interest rate swap contracts that entitle, or oblige it to receive interest at a fixed rate on notional principal amounts and entitle, or oblige it to pay interest at floating rates on the same notional principal amounts. The interest rate swaps allow the Group to swap long-term debt from fixed rates into floating rates that are lower, or higher, than those available if it had borrowed at floating rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified quarterly intervals, the difference between fixed rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.2 Interest rate risk management (continued)

At March 31, 2008 the Group had three interest rate swaps:

Vodacom Group (Proprietary) Limited - the Company swapped its fixed interest rate of 14.9% Nominal Annual Compounded Quarterly ("NACQ") for a floating rate, linked to the Bankers Acceptance ("BA") rate plus margin of 2.0%. The termination date of the agreement is January 30, 2009.

Vodacom (Proprietary) Limited - the Company swapped its fixed interest rate of 20.1% NACQ for a floating rate linked to the BA rate plus margin of 2.25%. The termination date of the agreement is August 24, 2012.

Vodacom (Proprietary) Limited - the Company swapped its fixed interest rate of 13.3% NACS (Nominal Annual Compounded Semi-annually) for a floating rate linked to the BA rate plus margin 2.0%. The termination date of the agreement is December 1, 2012.

	2006 Rm	2007 Rm	2008 Rm
Fair value of interest rate swap asset	37.6	27.7	17.4

The fair value of the interest rate swap assets is represented by a notional principal amount of R170.5 million (2007: R198.5 million; 2006: R217.7 million) at a weighted average floating interest rate of 13.4% NACM (2007: 11.45% NACM; 2006: 9.3% NACM) and a weighted average fixed interest rate of 15.1% NACM.

Interest rate sensitivity analysis:

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the balance sheet date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Changes in prevailing market interest rates are based on economic forecasts as published by Reuters.

A positive number below indicates an increase in profit before taxation if interest rates were higher by the basis points indicated below in a net financial asset position.

A negative number below indicates a decrease in profit before taxation if interest rates were higher by the basis points indicated below in a net financial liability position.

If interest rates were lower by the basis points indicated above, there would be an equal and opposite impact on the profit before taxation.

The sensitivity analysis is representative of the Group's exposure to interest rate risk with exception of dividends and taxation that are payable at the end of the financial year and other interest bearing debt acquired December 5, 2007. There were no changes in the methods and assumptions used in preparing the sensitivity analysis.

	2006 Rm	2007 Rm	2008 Rm
RSA prime rates, JIBAR rates, Money market rates and RSA BA rates			
Basis point increase	200	200	100
Profit before taxation	147.8	94.5	(24.7)
LIBOR			
Basis point increase	50	260	20
Profit before taxation	(0.3)	(1.6)	(1.8)
EURIBOR			
Basis point increase	120	50	35
Profit before taxation	1.0	0.2	-
Lesotho prime rates			
Basis point increase	200	200	100
Profit before taxation	0.4	0.7	1.3

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.1 Market risk management (continued)

42.2.1.3 Price risk

The Group is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price risk sensitivity analysis:

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

The Group's available-for-sale financial assets are valued using the discounted cash flow method. Assuming a constant growth rate, a 1.0% increase in the discount rate would decrease the valuation of the investment by R6.6 million (2007: R 7.0 million) and a 1.0% decrease in the discount rate would increase the valuation by R7.7 million (2007: R8.6 million).

There were no changes in the methods and assumptions used in preparing the equity price sensitivity analysis.

42.2.2 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the credit risk department.

Financial assets, which potentially subject the Group to concentrations of credit risk, consists principally of cash and cash equivalents, short-term deposits, derivative contracts including foreign exchange forward contracts and interest rate swaps, loans and receivables, investments and trade and other receivables, including finance lease receivables. Financial guarantees granted also subject the Group to credit risk.

The Group's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions. Credit risk with respect to trade and finance lease receivables is limited due to large number of customers comprising the Group's customer base and stringent credit approval processes for contracted subscribers.

With respect to the foreign exchange forward contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises credit risk relating to foreign exchange forward contracts and interest rate swaps by limiting the counterparties to major local and international banks, and does not expect to incur any losses as a result of non-performance by these counterparties. The positions in respect of these counterparties are closely monitored.

The Group's exposure to credit risk with regards to loans and receivables are limited due to collateral held (Note 12).

The carrying amounts of financial assets, excluding foreign exchange forward contracts and interest rate swaps, included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to these assets.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.2 Credit risk management (continued)

The maximum credit exposure of forward exchange contracts and interest rate swaps is represented by the fair value of these contracts.

The maximum credit exposure of financial guarantee contracts granted is the maximum amount the Group could be required to pay, or fund, without consideration of the probability of the actual outcome.

The Group holds collateral over certain trade and other receivables. The collateral is made up of demand guarantees from financial institutions and can be exercised on overdue invoices. The collateral held amounted to R1,086.1 million (2007: R795.8 million; 2006: R432.9 million).

There has been no significant change during the financial year, or since the end of the financial year, to the Group's exposure to credit risk, the approach to the measurement or the objectives, policies and processes for managing this risk.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained:

	2006 Rm	2007 Rm	2008 Rm
Loans and receivables - South Africa	-	22.2	31.8
Loans and receivables - non-South African	92.1	108.4	132.1
Trade and other receivables - South Africa	3,823.2	4,546.0	5,576.6
Trade and other receivables - non-South African	376.8	865.4	992.5
Financial guarantee contracts granted *	1,152.0	1,311.9	1,484.5
	5,444.1	6,853.9	8,217.5

* Financial guarantees issued in support of Vodacom Congo (RDC) s.p.r.l are included as liabilities in the consolidated balance sheet.

No terms of financial assets were renegotiated.

The following represents information on the credit quality of South African trade receivables that are neither past due nor impaired:

	2006 %	2007 %	2008 %
High	-	-	-
Medium	1	1	1
Low	99	99	99
	100	100	100

Definitions:

High: the probability exists that the debtor has defaulted in payments and entered into a delinquency scenario.

Medium: the probability exists that the debtor is experiencing financial difficulties and is in arrears. The debtor is being managed closely to collect all overdue accounts.

Low: no default in payment has occurred or is anticipated by the debtor.

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.2 Credit risk management (continued)

The following represents an analysis of the age of financial assets that are past due but not impaired:

	1 - 30 days past due Rm	31 - 60 days past due Rm	61 - 90 days past due Rm	91 - 120 days past due Rm	Total Rm
2006					
Trade and other receivables - SouthAfrica	7.6	4.4	12.1	10.3	34.4
Trade and other receivables - non-South African	7.7	11.0	-	-	18.7
	15.3	15.4	12.1	10.3	53.1
2007					
Trade and other receivables - SouthAfrica	13.0	6.6	6.3	28.9	54.8
Trade and other receivables - non-South African	19.6	27.6	-	-	47.2
	32.6	34.2	6.3	28.9	102.0
2008					
Trade and other receivables - SouthAfrica	22.0	12.4	12.7	13.9	61.0
Trade and other receivables - non-South African	8.4	19.4	-	-	27.8
	30.4	31.8	12.7	13.9	88.8

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.3 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments through undrawn borrowing facilities. In terms of its long-term liquidity risk, a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both estimated interest and principal cash flows. Estimated interest of floating interest rate financial liabilities is calculated using the applicable yield curves at March 31, 2008, 2007 and 2006.

	0 - 1 year	2 years	3 years	4 years	5 years	5+ years	Not determined	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2006								
Finance leases	190.7	211.7	269.2	153.6	200.6	180.4	-	1,206.2
Funding loans	1,527.3	-	-	-	-	-	90.9	1,618.2
Other short-term loans	39.0	-	-	-	-	-	-	39.0
Non-interest bearing debt	-	-	-	-	-	-	4.3	4.3
Trade and other payables	7,804.4	-	-	-	-	-	-	7,804.4
Bank borrowings	1,385.8	-	-	-	-	-	-	1,385.8
	10,947.2	211.7	269.2	153.6	200.6	180.4	95.2	12,057.9
2007								
Finance leases	211.7	271.2	153.6	200.6	98.7	82.1	-	1,017.9
Funding loans	365.5	1.4	1,489.7	-	-	-	123.1	1,979.7
Other short-term loans	21.9	-	-	-	-	-	-	21.9
Non-interest bearing debt	-	-	-	-	-	-	3.0	3.0
Trade and other payables	9,742.5	-	-	-	-	-	-	9,742.5
Bank borrowings	879.2	-	-	-	-	-	-	879.2
	11,220.8	272.6	1,643.3	200.6	98.7	82.1	126.1	13,644.2
2008								
Finance leases	271.2	153.6	200.6	98.7	82.1	-	-	806.2
Funding loans	421.1	1,665.3	1,089.0	-	-	-	142.6	3,318.0
Other short-term loans	8.1	-	-	-	-	-	-	8.1
Non-interest bearing debt	-	-	-	-	-	-	6.0	6.0
Trade and other payables	10,634.0	-	-	-	-	-	-	10,634.0
Bank borrowings	2,596.8	-	-	-	-	-	-	2,596.8
	13,931.2	1,818.9	1,289.6	98.7	82.1	-	148.6	17,369.1

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.3 Liquidity risk management (continued)

The following tables detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows/outflows on the derivative instruments that settle on a net basis and the undiscounted gross outflows on those derivatives that requires gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected interest rates as illustrated by the yield curves existing at the reporting date.

	0 - 1 year	2 years	3 years	4 years	5 years	5+ years	Not determined	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm	Rm
2006								
Net settled:								
Interest rate swaps	7.3	-	-	-	-	-	-	7.3
Foreign exchange forward contracts	3.0	-	-	-	-	-	-	3.0
Gross settled:								
Foreign exchange forward contracts	1,650.6	-	-	-	-	-	-	1,650.6
	1,660.9	-	-	-	-	-	-	1,660.9
2007								
Net settled:								
Interest rate swaps	6.2	-	-	-	-	-	-	6.2
Foreign exchange forward contracts	0.3	-	-	-	-	-	-	0.3
Gross settled:								
Foreign exchange forward contracts	2,322.5	-	-	-	-	-	-	2,322.5
	2,329.0	-	-	-	-	-	-	2,329.0
2008								
Net settled:								
Interest rate swaps	3.4	-	-	-	-	-	-	3.4
Foreign exchange forward contracts	11.0	-	-	-	-	-	-	11.0
Gross settled:								
Foreign exchange forward contracts	2,134.8	100.4	-	-	-	-	-	2,235.2
	2,149.2	100.4	-	-	-	-	-	2,249.6

42.2.4 Insurance risk management

The Group is exposed to insurance risk as a result of its asset base as well as its customer commitments. In terms of its insurance risk profile the company ensures that there is adequate insurance cover through the utilisation of a special purpose insurance vehicle (Note 4).

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.2 RISK MANAGEMENT (CONTINUED)

42.2.5 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising return to shareholders.

The capital structure of the Group consists of debt, cash and cash equivalents and adjusted equity.

The Group monitors capital on the basis of debt to equity. The ratio is calculated as net debt (as defined below) to adjusted equity (as defined below).

Net debt comprises interest bearing debt, shareholder's loans, outside shareholder's loans, any other long-term liabilities, shareholder for dividends, secondary taxation payable on shareholders for dividends and cash and cash equivalents.

Adjusted equity comprises share capital, distributable reserves, non-distributable reserves less minority interest, trademarks and goodwill.

The Group's strategy is to maintain a net debt to adjusted equity ratio of below 150%. The Group reviews its objectives on a semi-annual basis to ensure objectives are being met.

The net debt to equity ratio at year end was as follows:

	2006 Rm	2007 Rm	2008 Rm
Debt	(5,619.0)	(5,919.1)	(7,043.6)
Cash and cash equivalents	1,760.3	(107.8)	(1,619.2)
Net debt	(3,858.7)	(6,026.9)	(8,662.8)
Adjusted equity	(7,647.2)	(8,274.0)	(9,308.0)
Net debt to adjusted equity ratio	50%	73%	93%

There were no changes in the Group's objective, policies or processes for managing capital from the previous financial year.

The Group is not subject to externally imposed capital requirements.

42.3 VM, S.A.R.L. call option

In terms of the new shareholders' agreement, effective April 1, 2007, the Group's minority shareholders in VM, S.A.R.L., Empresa Moçambicana de Telecomunicações S.A.R.L. ("Emotel") and Intelec Holdings Limitada ("Intelec") have a option for a period of five years following the commencement date, April 1, 2007. In terms of the option, Emotel and Intelec shall be entitled to acquire such numbers of further shares in and proportionate claims in and against VM, S.A.R.L. as will result in Emotel and Intelec each holding and beneficially owning, in aggregate together with their shareholding in VM, S.A.R.L. as at April 1, 2007, 10% of the issued share capital, after the exercise of the option. The option can only be exercised in a single transaction and after all obligations to Vodacom International Limited have been fully discharged. The method of determining the option price is specified in the shareholders' agreement. The call option had a nil value at March 31, 2008.

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42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

42.4 Smartphone SP (Proprietary) Limited put option

In terms of the shareholders' agreement amended during the previous financial year, the then minority shareholders of Smartphone SP (Proprietary) Limited had a put option against Vodacom Group (Proprietary) Limited, should the Group or the company had terminated or failed to renew the Service Provider Agreement for any reason other than the expiry or cancellation of the Group's South African licence. The previous put options had a nil value at March 31, 2007 and 2006 as the conditions set out in the agreement were not met. This put option was cancelled during the current year with the acquisition of the minority shareholders of Smartphone SP (Proprietary) Limited (Note 32).

42.5 Smartcom (Proprietary) Limited put option

In terms of the amended agreement between Vodacom Group (Proprietary) Limited ("the Group"), Smartphone SP (Proprietary) Limited ("Smartphone") and the minority shareholders of Smartcom (Proprietary) Limited ("Smartcom"), the then minority shareholders of Smartcom had a put option against the Group, should the Group had reduced the standard service provider discount below the average service provider discount provided by Vodacom (Proprietary) Limited to its other service providers. The previous put options had a nil value at March 31, 2007 and 2006 as the conditions set out in the agreement were not met. This put option was cancelled with the acquisition of the minority shareholders of Smartcom (Proprietary) Limited (Note 32).

42.6 Congolese Wireless Network s.p.r.l. ("CWN") put option

In terms of a shareholders agreement, the minority shareholder in Vodacom Congo (RDC) s.p.r.l., Congolese Wireless Network s.p.r.l. ("CWN") has a put option which comes into effect three years after the commencement date, December 1, 2001, and for a maximum of five years thereafter. In terms of the option, CWN shall be entitled to put to Vodacom International Limited such number of shares in and claims on loan account against Vodacom Congo (RDC) s.p.r.l. as constitute 19% of the entire issued share capital of that company. CWN can exercise this option in a maximum of three tranches and each tranche must consist of at least 5% of the entire issued share capital of Vodacom Congo (RDC) s.p.r.l. The option price will be the fair market value of the related shares at the date the put option is exercised. The put option has a nil value as at March 31, 2008, 2007 and 2006. The option liability had a value of R396.5 million (2007: R249.3 million; 2006: Rnil) as at March 31, 2008 (Note 25).

42.7 The Somnium Family Trust ("the Trust") call option

The Somnium Family Trust ("the Trust") granted Vodacom Ventures (Proprietary) Limited a call option to purchase such number of shares in Gogga Tracking Solutions (Proprietary) Limited from the Trust totalling 23% of the issued share capital of the company on the date upon which the option is exercised. The option will lapse after 36 months following the month in which the triggering events, as stipulated in the option agreement, occurs. The option price is specified in the option agreement. The call option had a nil value at March 31, 2008 and 2007.

42.8 WBS Holdings (Proprietary) Limited call option

The Group has purchased a 10% equity stake in WBS Holdings (Proprietary) Limited effective January 31, 2007. WBS Holdings (Proprietary) Limited has on the same date granted the Group an option to subscribe in such number of further shares as will result in the Group holding and beneficially owning, in aggregate 25.5% of the total issued ordinary share capital of the company after the exercise of the option. The option can be exercised by the Group until February 27, 2009, subject to the fulfilment of the conditions precedent as set out in the sales of shares and option agreement. The call option had a nil value at March 31, 2008 and 2007.

42.9 G-Mobile Holdings Limited call option

G-Mobile Holdings Limited granted to Vodacom Ventures (Proprietary) Limited an irrevocable call option to subscribe for such number of further shares as would result in Vodacom Ventures (Proprietary) Limited holding and beneficially owning, in aggregate together with the subscription shares 26% of the total issued share capital of G-Mobile Holdings Limited after the exercise of the option at a specified price. The option had a nil value at March 31, 2007. This call option was exercised during the current year.

43. GOODWILL IMPAIRMENT TEST

The Group periodically evaluates its non-current assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Group's judgements regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause management to conclude that impairment indicators exist.

Goodwill impairment tests are performed annually in terms of IFRS 3: Business Combinations ("IFRS 3") to compare the fair value of each of the cash-generating units to its carrying amount. Goodwill impairment testing is conducted at cash-generating unit levels of the business and is based on a cash flow-based valuation model to determine the fair value of the cash-generating unit. The assumptions used in estimating future cash flows were based upon the business forecasts and incorporated external information from industry sources, where applicable. Changes in certain of these estimates could have an effect on the estimated fair value of the cash-generating unit. Judgements in estimating discounted cash flows also include the selection of the pre-tax discount rate (weighted average cost of capital) to be used in the valuation model. The discount rate used in the valuation model considered a targeted debt and equity mix, a market risk premium, and other factors considered with valuation methodologies.

Based on the results of the impairment evaluation described above, the recorded goodwill was not impaired as the fair value of each reporting unit exceeded the carrying value. Minor changes to the valuation model would not significantly impact the results of the valuation; however, if future cash flows were materially different to the forecasts, then the assessment of the potential impairment of the carrying value may be impacted.

Goodwill has been allocated for impairment testing purposes to six cash-generating units of which four are in South Africa, one in the Democratic Republic of the Congo and one in Tanzania.

South Africa

The recoverable amounts of goodwill relating to Vodacom (Proprietary) Limited and Vodacom Service Provider Company (Proprietary) Limited, which now includes the operations of Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel V.A.S. (Proprietary) Limited, has been determined on the basis of value in use calculations. These companies operate in the same economic environment for which the same key assumptions were used. These values in use calculations use cash flow projections based on financial budgets approved by management covering a ten year period and discount rates of between 12.0% and 15.0% in Rand terms. Ten year management accounts were used as expectations of strong revenue growth throughout the ten year period exists. The implied terminal growth rate is between 4.0% and 6.0%. Management believes that any reasonable change in any of these key assumptions would not cause the aggregate carrying amount of these companies to exceed the aggregate recoverable amount of these units.

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43. GOODWILL IMPAIRMENT TEST (CONTINUED)

Democratic Republic of Congo

The recoverable amount of this cash-generating unit was based on a value in use calculation for Vodacom Congo (RDC) s.p.r.l. The calculation uses cash flow projections based on financial budgets approved by management covering a ten year period and a discount rate which ranged between 16.0% and 19.0% in US Dollar terms. Ten year management accounts were used as expectations of strong revenue growth throughout the ten year period exists. Cash flows beyond this period have been extrapolated using annual nominal growth rates which ranged between 2.0% and 5.0%. Management believes that these growth rates do not exceed the long-term average growth rate for the market in which this company operates. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Tanzania

The recoverable amount of this cash-generating unit was based on a value in use calculation for Vodacom Tanzania Limited. The calculation uses cash flow projections based on financial budgets approved by management covering a ten year period and a discount rate which ranged between 16.0% and 19.0% in Tanzanian Shilling terms. Ten year management accounts were used as expectations of strong revenue growth throughout the ten year period exists. The terminal growth rate applicable ranged between 7.0% and 11.0%, relative to a long-term inflation target of 7.0%. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

March 31, 2008	South Africa Rm	Democratic Republic of Congo Rm	Tanzania Rm
Carrying amount of goodwill	1,739.3	148.1	9.2
<i>Key assumption</i> Basis for determining value(s) assigned to key assumptions	<i>Expected customer base</i> Closing customer base in the period immediately preceding the budget period increased for expected growth.	<i>Expected customer base</i> Closing customer base in the period immediately preceding the budget period increased for expected growth.	<i>Expected customer base</i> Closing customer base in the period immediately preceding the budget period increased for expected growth.
	Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.	Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.	Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.
Basis for determining value(s) assigned to key assumptions	Closing customer base in the period immediately preceding the budget period increased for expected growth.	Closing customer base in the period immediately preceding the budget period increased for expected growth.	Closing customer base in the period immediately preceding the budget period increased for expected growth.
<i>Key assumption</i>	<i>ARPU</i> Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.	<i>ARPU</i> Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.	<i>ARPU</i> Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.

43. GOODWILL IMPAIRMENT TEST (CONTINUED)

March 31, 2008	South Africa	Democratic Republic of Congo	Tanzania
<i>Key assumption</i> Basis for determining value(s) assigned to key assumptions	<i>Gross margin</i> Average gross margin achieved in period immediately before the budget period, increased for expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.	<i>Gross margin</i> Average gross margin achieved in period immediately before the budget period, increased for expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.	<i>Gross margin</i> Average gross margin achieved in period immediately before the budget period, increased for expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.
<i>Key assumption</i> Basis for determining value(s) assigned to key assumptions	<i>Capital expenditure</i> Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on management's expected network coverage roll out.	<i>Capital expenditure</i> Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on management's expected network coverage roll out.	<i>Capital expenditure</i> Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on management's expected network coverage roll out.
<i>Key assumption</i>		ZAR/USD exchange rate during the budget period.	ZAR/TZS and USD/TZS exchange rates during the budget period.
Basis for determining value(s) assigned to key assumptions		Average market forward exchange rate over the budget period. Value assigned to key assumption is consistent with external sources of information.	Average market forward exchange rate over the budget period. Value assigned to key assumption is consistent with external sources of information.

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44. UNDRAWN BORROWING FACILITIES AND GUARANTEES

44.1 Rand denominated facilities and guarantees

The Group has Rand denominated credit facilities totalling R5,788 million (2007: R4,989.0 million; 2006: R7,083.0 million) with R2,456 million (2007: R816.0 million; 2006: R1,114.0 million) utilised at March 31, 2008. The facilities that are uncommitted, can also be utilised for loans to foreign entities and are subject to review at various dates (usually on an annual basis). Certain of the facilities are still subject to the Group's final acceptance.

Guarantor	Details	Beneficiary	2006 Rm	2007 Rm	2008 Rm
Vodacom (Proprietary) Limited	All guarantees less than R2.0 million.	Various	2.6	2.7	2.4
Vodacom Service Provider Company (Proprietary) Limited	All guarantees less than R2.0 million.	Various	2.8	2.6	2.9
Vodacom Service Provider Company (Proprietary) Limited	Guarantee in respect of receipt by independent intermediaries of premiums on behalf of short-term insurers and Lloyds underwriters, and relating to short-term insurance business carried on in South Africa. Renewable annually.	SA Insurance Association for benefit of insurers	21.1	27.0	32.0
Vodacom (Proprietary) Limited	Letter of undertaking in respect of land.	Attorneys	-	6.8	16.9
Smartcom (Proprietary) Limited	Guarantees for salary bank account and debit orders.	Various	2.9	3.2	-
Cointel V.A.S. (Proprietary) Limited	Guarantees for operating lease and debit orders.	Various	-	1.5	-
			29.4	43.8	54.2

44.2 Foreign denominated facilities and guarantees

The following foreign denominated facilities are in place:

Company	Details	As at March 31, 2008 Million Total facility	As at March 31, 2008 Million Utilised
Vodacom International Limited	Revolving term loan	US\$180.0	US\$180.0
Vodacom Congo (RDC) s.p.r.l.	Various	US\$18.5	US\$9.4
Vodacom Lesotho (Proprietary) Limited	Overdraft facilities with various banks	M40.0	M0.0
VM, S.A.R.L.	Overdraft facility	US\$0.5	US\$0.0

44. UNDRAWN BORROWING FACILITIES AND GUARANTEES (CONTINUED)

44.2 Foreign denominated facilities and guarantees (continued)

The following foreign denominated guarantees have been issued:

Guarantor/Issuer	Details	Beneficiary	Currency	2006 Rm	2007 Rm	2008 Rm
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom International Limited's term loan facility * #	Standard Bank Plc and RMB International (Dublin) Limited	US\$180.0 million (2007: US\$180.0 million (2006: US\$180.0 million)	1,114.4	1,311.9	1,462.6
Nedbank Limited on behalf of Vodacom (Proprietary) Limited	Unsecured standby letters of credit	Alcatel CIT	€nil (2007: €nil; 2006: €11.4 million)	85.7	-	-
Vodacom International Limited	Guarantees issued for the obligations of VodacomCongo (RDC) s.p.r.l. *	Alcatel CIT	€nil (2007: €nil (2006: €5.0 million)	37.6	-	-
				1,237.7	1,311.9	1,462.6

* Foreign denominated guarantees amounting to R1,462.6 million (2007: R1,311.9 million; 2006: R1,152.0 million issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the consolidated balance sheets.

The Group is in compliance with the covenants attached to the term loan facility.

Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

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45. SEGMENTAL INFORMATION

Vodacom's reportable segments are geographical business units that offer comparable business products and services however they are separately managed because the mobile telecommunication and data communication businesses are located in South Africa and non-South African countries.

Vodacom has six reportable segments: South Africa, Tanzania, Mozambique, Lesotho, Democratic Republic of the Congo, and Other. The segments offer a variety of telecommunication and data communication services as well as equipment sales.

"Other" comprises of the holding companies of the Group.

"South Africa", which is also the home country of the parent, comprises the segment information relating to the South African based cellular network as well as all the segment information of the service providers and other business segments.

"Tanzania", "Mozambique", "Lesotho", and "DRC" comprise the segment information relating to the non-South African based cellular networks.

	2006 Rm	2007 Rm	2008 Rm
Reconciliations of reportable segments			
Segment results			
Management operating profit for reportable segments	8,980.6	11,000.4*	12,616.4
Amortisation of licences, trademarks and patents and customer bases	(167.7)	(117.7)	(95.8)
Impairment of assets	52.8	(22.9)	(29.9)
Profit from operations	8,865.7	10,859.8	12,490.7
Net finance cost	(639.2)	(463.8)	(423.9)
Finance income	129.9	74.5	72.3
Finance costs	(246.0)	(369.3)	(681.3)
Gains/(Losses) on remeasurement and disposal of financial instruments	(523.1)	(169.0)	185.1
Profit before taxation	8,226.5	10,396.0	12,066.8
Taxation	(3,083.7)	(3,836.0)	(4,109.2)
Net profit	5,142.8	6,560.0	7,957.6

* Management operating profit for reportable segments includes profit on sale of shares in subsidiary.

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	Other Rm	South Africa Rm	Tanzania Rm	Mozambique Rm	Lesotho Rm	DRC Rm	Eliminations Rm	Total Rm
45. SEGMENTAL INFORMATION (CONTINUED)								
2006								
Segment revenue	274.2	31,089.8	1,311.8	158.3	170.1	1,334.2	-	34,338.4
Inter-segment revenue	(274.2)	(8.5)	(5.2)	(5.3)	(1.6)	(1.1)	-	(295.9)
External customers segment revenue	-	31,081.3	1,306.6	153.0	168.5	1,333.1	-	34,042.5
Airtime and access	-	18,169.2	988.9	71.8	120.9	735.0	-	20,085.8
Data revenue	-	1,884.8	108.0	3.5	15.8	25.5	-	2,037.6
Interconnect revenue	-	6,141.6	188.0	57.5	26.5	283.2	-	6,696.8
Equipment sales	-	3,902.4	5.4	0.4	4.2	73.2	-	3,985.6
International airtime	-	720.8	14.3	19.5	0.7	215.9	-	971.2
Other	-	262.5	2.0	0.3	0.4	0.3	-	265.5
Management operating profit/(loss)	(23.3)	8,762.9	263.6	(196.8)	50.9	123.3	-	8,980.6
Net finance income/(cost)	8,306.0	(357.7)	(86.1)	(364.4)	(0.1)	(237.4)	(7,899.5)	(639.2)
Taxation	(679.8)	(2,403.4)	(31.5)	-	(18.3)	49.3	-	(3,083.7)
Net profit/(loss)	7,226.3	5,842.0	140.6	(508.5)	32.4	(71.4)	(7,518.6)	5,142.8
Other material non-cash items included in segment profit/(loss):								
Depreciation and amortisation	(2.8)	(2,451.5)	(201.5)	(68.2)	(16.0)	(255.8)	-	(2,995.8)
Impairments of assets reversed	-	-	-	52.8	-	-	-	52.8
Assets								
Reportable segment assets	14,391.1	20,642.0	1,348.6	527.2	136.8	1,992.9	(14,270.8)	24,767.8
Included in reportable segment assets:								
Additions to property, plant and equipment and intangible assets	16.5	4,383.0	321.5	121.4	25.9	273.2	-	5,141.5
Non-current assets other than financial instruments and deferred taxation	55.7	11,902.1	950.1	396.4	101.4	1,563.4	720.4	15,689.5
Liabilities								
Reportable segment liabilities	(6,108.1)	(17,292.4)	(613.1)	(1,030.3)	(52.1)	(2,527.9)	11,528.4	(16,095.5)



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45. SEGMENTAL INFORMATION (CONTINUED)

2007

Segment revenue

	Other Rm	South Africa Rm	Tanzania Rm	Mozambique Rm	Lesotho Rm	DRC Rm	Eliminations Rm	Total Rm
Segment revenue	388.4	37,050.2	1,729.3	269.0	227.5	1,914.4	-	41,578.8
Inter-segment revenue	(388.4)	(11.6)	(7.4)	(10.0)	(2.1)	(12.9)	-	(432.4)
External customers segment revenue	-	37,038.6	1,721.9	259.0	225.4	1,901.5	-	41,146.4
Airtime and access	-	21,045.3	1,282.4	131.6	165.3	1,082.9	-	23,707.5
Data revenue	-	3,112.9	146.5	8.1	22.5	51.7	-	3,341.7
Interconnect revenue	-	7,058.0	257.8	80.1	31.7	408.0	-	7,835.6
Equipment sales	-	4,604.9	19.4	4.4	4.2	66.2	-	4,699.1
International airtime	-	961.8	15.4	34.6	1.3	292.7	-	1,305.8
Other	-	255.7	0.4	0.2	0.4	-	-	256.7
Management operating profit/(loss)	64.2	10,383.6	347.0	(154.1)	74.9	284.8	-	11,000.4
Net finance income/(cost)	3,346.4	(475.3)	(43.6)	34.5	(0.8)	(287.8)	(3,037.2)	(463.8)
Taxation	(799.2)	(2,922.0)	(112.1)	(42.0)	(18.9)	58.2	-	(3,836.0)
Net profit/(loss)	2,102.9	6,870.4	190.7	(184.4)	55.2	47.4	(2,522.2)	6,560.0
Other material non-cash items included in segment profit/(loss):								
Depreciation and amortisation	(2.2)	(2,688.6)	(237.8)	(84.8)	(22.1)	(325.7)	-	(3,361.2)
Impairments of assets	-	-	-	(22.9)	-	-	-	(22.9)
Assets								
Reportable segment assets	13,183.2	23,207.0	2,424.4	690.9	169.5	2,692.0	(13,896.8)	28,470.2
Included in reportable segment assets:								
Additions to property, plant and equipment and intangible assets	182.3	5,458.3	957.6	85.2	25.0	506.0	-	7,214.4
Non-current assets other than financial instruments and deferred taxation	230.1	14,949.8	1,864.9	459.4	104.3	2,036.1	604.1	20,248.7
Liabilities								
Reportable segment liabilities	(7,693.4)	(16,746.1)	(1,123.0)	(1,261.2)	(66.2)	(3,272.7)	11,339.4	(18,823.2)

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	Other Rm	South Africa Rm	Tanzania Rm	Mozambique Rm	Lesotho Rm	DRC Rm	Eliminations Rm	Total Rm
45. SEGMENTAL INFORMATION (CONTINUED)								
2008								
Segment revenue	-	43,180.3	2,354.5	433.9	308.9	2,296.6	-	48,574.2
Inter-segment revenue	-	(355.4)	(9.7)	(26.0)	(2.6)	(2.7)	-	(396.4)
External customers segment revenue	-	42,824.9	2,344.8	407.9	306.3	2,293.9	-	48,177.8
Airtime and access	-	23,596.4	1,704.7	220.5	186.6	1,387.0	-	27,095.2
Data revenue	-	4,669.8	206.8	15.7	31.3	78.6	-	5,002.2
Interconnect revenue	-	7,938.3	360.4	110.8	40.7	436.9	-	8,887.1
Equipment sales	-	4,931.0	45.6	8.2	8.9	57.7	-	5,051.4
International airtime	-	1,386.7	26.7	52.6	38.2	331.7	-	1,835.9
Other	-	302.7	0.6	0.1	0.6	2.0	-	306.0
Management operating profit/(loss)	34.0	11,754.3	460.0	(127.0)	122.8	372.3	-	12,616.4
Net finance income/(cost)	7,885.4	(537.7)	(24.4)	56.2	2.5	(274.9)	(7,531.0)	(423.9)
Taxation	(739.6)	(3,250.9)	(121.2)	43.9	(32.5)	(8.9)	-	(4,109.2)
Net profit/(loss)	6,675.9	7,916.3	314.5	(56.5)	94.0	80.2	(7,066.8)	7,957.6
Other material non-cash items included in segment profit/(loss):								
Depreciation and amortisation	(56.7)	(3,056.5)	(305.5)	(94.6)	(16.1)	(381.7)	-	(3,911.1)
Impairments of assets	-	-	-	(29.9)	-	-	-	(29.9)
Assets								
Reportable segment assets	16,015.4	24,597.8	3,430.7	892.0	277.5	3,431.3	(14,469.5)	34,175.2
Included in reportable segment assets:								
Additions to property, plant and equipment and intangible assets	1,132.0	4,270.0	712.6	111.3	38.7	658.6	-	6,923.2
Non-current assets other than financial instruments and deferred taxation	421.1	16,046.6	2,546.3	546.8	129.1	2,590.3	1,488.7	23,768.9
Liabilities								
Reportable segment liabilities	(9,489.4)	(17,776.7)	(2,335.7)	(1,924.6)	(104.8)	(3,987.2)	13,248.5	(22,369.9)

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46. INTEREST IN SUBSIDIARIES

The information discloses interests in subsidiaries material to the financial position of the Group. The interest in the ordinary share capital is representative of the voting power.

RSA – Republic of South Africa; LES – Lesotho; TZN – Tanzania; MZ – Mozambique; DRC – Democratic Republic of the Congo; MAU – Mauritius; C – Cellular; MSC – Management services company; PROP – Property company; OTH – Other.

	Country of incorporation	Issued share capital			Interest in issued ordinary share capital		
		2006	2007	2008	2006 %	2007 %	2008 %
Cellular network operators							
Vodacom (Proprietary) Limited (C)	RSA	R100	R100	R100	100	100	100
Vodacom Lesotho (Proprietary) Limited (C)	LES	M4,180	M4,180	M4,180	88.3	88.3	88.3
Vodacom Tanzania Limited (C)	TZN	TZS10,000	TZS10,000	TZS10,000	65	65	65
VM, S.A.R.L. (C)	MZ	US\$60,000,000	US\$60,000,000	US\$60,000,000	98	98	90
Vodacom Congo (RDC) s.p.r.l. (C)	DRC	US\$1,000,000	US\$1,000,000	US\$1,000,000	51	51	51
Service providers							
Vodacom Service Provider Company (Proprietary) Limited (C)	RSA	R20	R20	R20	100	100	100
Smartphone SP (Proprietary) Limited (C) *	RSA	R20,000	R20,000	R20,000	51	70	100
Smartcom (Proprietary) Limited (C) *	RSA	R1,000	R1,000	R1,000	43.7	61.7	100
Cointel V.A.S. (Proprietary) Limited (C) *	RSA	-	R10,204	R10,204	51	70	100
Other							
VSP Holdings (Proprietary) Limited (MSC) *	RSA	R1,023	R1,023	R1,023	100	100	100
Vodacom Satellite Services (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
GSM Cellular (Proprietary) Limited (OTH) *	RSA	R1,200	R1,200	R1,200	100	100	100
Vodacom Venture No. 1 (Proprietary) Limited (OTH) *	RSA	R810	R810	R810	100	100	100
Vodacom Equipment Company (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
Vodacare (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
Vodacom International Holdings (Proprietary) Limited (MSC)	RSA	R100	R100	R100	100	100	100
Vodacom International Limited (MSC)	MAU	US\$100	US\$100	US\$100	100	100	100
Vodacom Properties No.1 (Proprietary) Limited (PROP)	RSA	R100	R100	R100	100	100	100
Vodacom Properties No.2 (Proprietary) Limited (PROP)	RSA	R1,000	R1,000	R1,000	100	100	100
Stand 13 Eastwood Road Dunkeld West (Proprietary) Limited (PROP)	RSA	R100	R100	-	51	70	-
Ithuba Smartcall (Proprietary) Limited (OTH)	RSA	R100	R100	-	26.5	36.4	-
Smartcall Smartlife (Proprietary) Limited (OTH)	RSA	-	R100	-	-	63	-
Vodacom Tanzania Limited (Zanzibar) (OTH) *	TZN	TZS10,000	TZS10,000	TZS10,000	99	99	99
Joycell Shops (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
Marble Gold Investments (Proprietary) Limited (OTH) *	RSA	R100	R100	R100	100	100	100
Vodacom Ventures (Proprietary) Limited (OTH)	RSA	R120	R120	R120	100	100	100
Skyprops 134 (Proprietary) Limited (PROP)	RSA	-	R100	R100	-	100	100

* Dormant as at March 31, 2008.

47. INTERESTS IN JOINT VENTURES

47.1 Number Portability Company (Proprietary) Limited

In response to the introduction of Mobile Number Portability ("MNP") it was necessary for the formation of a company to provide all the services necessary to allow the existing three incumbent mobile operators to offer MNP.

Number Portability Company (Proprietary) Limited was formed for the express purpose of providing all the necessary services required for MNP by Vodacom, MTN and Cell C.

Number Portability Company (Proprietary) Limited is owned equally by all three operators and they contributed the required necessary financial resources directly proportional to their shareholding. MNP was officially launched on November 10, 2006.

Effective September 20, 2006, Vodacom (Proprietary) Limited acquired a 33.3% stake in Number Portability Company (Proprietary) Limited by acquiring 100 shares for R1. Each shareholder advanced to Number Portability Company (Proprietary) Limited funding by way of shareholders loans. As a March 31, 2008 the shareholder loan balance was R6.0 million (2007: R6.0 million) (Note 21).

	2007 Rm	2008 Rm
Interest held	33.3%	33.3%
The Group's proportionate share of assets and liabilities:		
Property, plant and equipment	*	*
Intangible assets	6.3	6.3
Current assets	2.2	3.0
Total assets	8.5	9.3
Long-term liabilities	(6.0)	(6.0)
Inter company creditors	(3.0)	(3.0)
Current liabilities	(0.6)	(0.4)
Net liabilities	(1.1)	(0.1)
The Group's proportionate share of revenue and expenditure:		
Revenue	0.4	5.7
Profit/(Loss) before taxation	(1.1)	1.1
Taxation	-	(0.1)
Net profit/(loss)	(1.1)	1.0
The Group's proportionate share of cash flows:		
Net cash flows from operating activities	(1.0)	0.2
Net cash flows utilised in investing activities	(7.0)	(1.8)
Net cash flows from financing activities	9.0	3.0
Net cash flow	1.0	1.4

NPC had no contingent liabilities or capital commitments at March 31, 2007 and 2008.

* Amounts less than R50 000

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2008

48. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements adopted at March 31, 2008

The Group adopted the following revised and new International Financial Reporting Standards in accordance with their effective dates during the current financial year:

IAS 1 (revised August 2005)	Presentation of Financial Statements (capital disclosures)
IFRS 7	Financial Instruments: Disclosures
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
AC 503	Accounting for BEE transactions

The adoption of the above mentioned accounting pronouncements had no impact on the Group's results or cash flow information for the year ended March 31, 2008.

Accounting pronouncements not adopted at March 31, 2008

In November 2006 the IASB issued IFRIC 12: Service Concession Arrangements ("IFRIC 12") effective for annual periods beginning on or after January 1, 2008. The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services, such as schools and roads. The interpretation states that for arrangements falling within its scope (essentially those where the infrastructure assets are not controlled by the operator), the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator will recognise:

- a financial asset where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset where the operator's future cash flows are not specified – e.g. where they will vary according to usage of the infrastructure asset; or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

The Group will adopt IFRIC 12 during the 2009 financial year and is currently evaluating the effects of the interpretation.

In March 2007 the IASB issued a revision to IAS 23: Borrowing Costs ("IAS 23") effective for annual periods beginning on or after January 1, 2009. The revised standard removes the option of recognising immediately as an expense those borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard does not apply to borrowing costs directly attributable to the acquisition, construction or production of qualifying assets measured at fair value or inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis.

The Group will adopt the revised IAS 23 during the 2010 financial year and is currently evaluating the effects of the standard.

In June 2007 the IASB issued IFRIC 13: Customer Loyalty Programmes ("IFRIC 13") effective for annual periods beginning on or after July 1, 2008. The interpretation addresses accounting by entities that grant loyalty award credits (such as points or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services (awards) to customers who redeem award credits. IFRIC 13 states that an entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations.

The Group will adopt IFRIC 13 during the 2010 financial year and is currently evaluating the effect of the interpretation and based on current indications do not believe that it will have a material impact on the Group's numbers.

48. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Accounting pronouncements not adopted at March 31, 2008 (continued)

In July 2007 the IASB issued IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ("IFRIC 14") effective for annual periods beginning on or after January 1, 2008. The interpretation addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS 19 on the measurement of the defined benefit asset or liability. When determining the limit on a defined benefit asset in accordance with IAS 19.58 entities are required, under IFRIC 14, to measure any economic benefits available to them in the form of refunds or reductions in future contributions at the maximum amount that is consistent with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

The Group will adopt IFRIC 14 during the 2009 financial year and is currently evaluating the effects of the interpretation.

In September 2007 the IASB issued a revision to IAS 1: Presentation of Financial Statements ("IAS 1") effective for annual periods beginning on or after January 1, 2009. The revised standard requires an entity to:

- present all non-owner changes in equity either in one statement of comprehensive income or in two statements, a separate income statement and a statement of comprehensive income;
- present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective adjustment; and
- disclose income tax relating to each component of other comprehensive income and to disclose reclassification adjustments relating to components of other comprehensive income.

In addition the revision includes changes in the titles of some of the financial statements. The new titles will be used in International Financial Reporting Standards, but are not mandatory for use in financial statements.

The Group will adopt the revised IAS 1 during the 2010 financial year and is currently evaluating the effect of the revised standard.

In January 2008 the IASB issued a revision to IFRS 2: Share-based Payment ("IFRS 2") effective for annual periods beginning on or after January 1, 2009. The revised standard clarifies:

- vesting and non-vesting conditions;
- the estimation of the fair value of equity instruments granted;
- the accounting treatment of cancellations by counterparties to a share-based arrangement; and
- the definition of performance conditions.

The Group will adopt the revised IFRS 2 during the 2010 financial year and is currently evaluating the effect of the revised standard.

In February 2008 the IASB issued a revision to IAS 32: Financial instruments: Presentation ("IAS 32") effective for annual periods beginning on or after January 1, 2009. The revision requires:

- puttable instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation to be classified as equity if all the conditions specified in the standard are met;
- reclassification from or to equity when the specified criteria are no longer met or are subsequently met; and
- that derivatives over the aforementioned instruments may not be classified as equity.

The Group will adopt the revised IAS 32 during the 2010 financial year and is currently evaluating the effect of the revised standard.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2008

48. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Accounting pronouncements not adopted at March 31, 2008 (continued)

In January 2008 the IASB issued a revision to IFRS 3: Business Combinations ("IFRS 3") effective for business combinations in annual periods beginning on or after July 1, 2009, which consequentially amended IAS 27: Consolidated and Separate Financial Statements ("IAS 27"), IAS 28: Investments in Associates ("IAS 28") and IAS 31: Interest in Joint Ventures ("IAS 31") effective for annual periods beginning on or after July 1, 2009.

Revisions to IFRS 3:

- require all acquisition costs to be expensed;
- require acquirers, with step acquisitions achieving control, to remeasure its previously held equity interest to fair value at the acquisition date and recognise any gain or loss in profit or loss;
- require non-controlling interests to be measured at either fair value or at the non-controlling interest's proportionate share of net identifiable assets of the entity acquired;
- require considerations for acquisitions to be measured at fair value at the acquisition date including the fair value of any contingent consideration payable. Subsequent changes are only allowed as a result of additional information on facts and circumstances that existed at the acquisition date, all other changes are recognised in profit or loss;
- require goodwill to be measured as the difference between the aggregate of the acquisition date fair value of the consideration transferred; the amount of any non-controlling interest acquired and in a business combination achieved in stages, the acquisition date fair value of the acquirers' previously held equity interest and the net of the acquisition date amounts of identifiable assets acquired and liabilities assumed; and
- clarifies that all contractual arrangements at the acquisition date must be classified and designated with the exception of leases and insurance contracts. Thus the acquirer applies its accounting policies as if it has acquired those contractual relationships outside of the business combination.

Revisions to IAS 27:

- require that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are equity transactions, no gain or loss is recognised and goodwill is not remeasured. The difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised in equity;
- require that with the loss of control all assets, liabilities and non-controlling interest should be derecognised at carrying amount and any retained non-controlling interest should be remeasured to fair value on the date control is lost. The difference between the sum of the proceeds received and any retained interest and the carrying amount of assets, liabilities and non-controlling interests at the date control is lost, should be recognised in profit or loss; and
- require losses to be allocated to non-controlling interests even if they exceed the non-controlling interest's share of equity in the subsidiary.

Revisions to IAS 28:

- require derecognition of an associate with the loss of significant influence; and
- recognition in profit or loss of the difference between the sum of the proceeds received and any retained interest, and the carrying amount of the investment in the associate at the date significant influence is lost.

Revisions to IAS 31:

- similar treatment as for associate investments is required when an investor loses joint control over a jointly controlled entity.

The Group will adopt the revised IFRS 3, IAS 27, IAS 28 and IAS 31 during the 2011 financial year and is currently evaluating the effect of the revised standards.

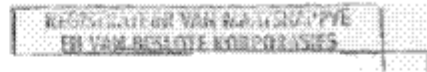
In February 2008 the IASB issued a revision to IAS 1: Presentation of financial statements ("IAS 1") effective for annual periods beginning on or after January 1, 2009. The revision requires disclosures for puttable instruments classified as equity which include quantitative data about the amount classified as equity; the entity's objectives, policies and processes for managing its obligation to repurchase or redeem the instruments including any changes from the previous period; the expected cash outflow on redemption or repurchase of that class of financial instruments, how the expected cash outflow was determined and if an instrument is reclassified into and out of financial liabilities and equity the amount, timing and reason for reclassification.

The Group will adopt the revised IAS 1 during the 2010 financial year and is currently evaluating the effect of the revised standard.

Special resolution

(Section 200)

(To be lodged in duplicate)



Revenue stamp or
revenue franking machine
impression of R80

Registration No. of Company
1991/005476/06

Name of company Telkom SA Limited

Date notice given to members 16/01/2003

Date resolution passed

16/01/2003

Special resolution passed in terms of section 62/75 of the Act/*paragraph _____ of the memorandum/
*article _____ of the articles.

Copy of notice convening meeting attached.

Consent to waive period of notice of meeting (CM 25) attached/* not attached.

CONTENTS OF RESOLUTION (Use reverse side if necessary)

Resolved:

See attached

Rubber stamp of company, if any, or of secretaries

Date 16/01/2003

Signature _____
Director/Secretary/Manager

Name (in block capitals)

VV Mashale

* Delete whichever not applicable.

To be completed by company

Herewith copy of special resolution as registered

Registration No. of Company
1991/005476/06

Special resolution
registered this day

**REGISTRATEUR VAN MAATSKAPPYE
EN VAN BESLOTE KORPORASIES**

Name of company Telkom SA Limited

Date stamp of Companies
Registration Office

2003-01-17

Postal address Private Bag X881
Pretoria, 0001



Not valid unless stamped by Registrar of Companies

The following resolutions were hereby **APPROVED** as **SPECIAL RESOLUTIONS**

SPECIAL RESOLUTION NUMBER 1

"Resolved that, subject to -

the passing and registration of special resolutions number 1 to 3 inclusive and such resolutions becoming unconditional in accordance with their terms;

the Minister of Communications of the Government of the Republic of South Africa ("**Minister**") consenting in writing to the adoption by the company of a new memorandum of association in terms of this special resolution and new articles of association in terms of special resolution number 2;

a new written strategic services agreement ("**strategic services agreement**"), which is substantially in accordance with the draft strategic services agreement tabled at this meeting and signed by the chairman to identify it, being entered into between the company and its strategic equity investors, and such agreement becoming unconditional and taking effect in accordance with its terms; and

the entire issued ordinary share capital of the company being listed on the JSE Securities Exchange, South Africa ("**JSE**") on or after the date on which the strategic services agreement becomes unconditional and takes effect in accordance with its terms, as evidenced by a certificate signed by a director of the company to that effect, which certificate shall be lodged with the Registrar of Companies,

the company adopt, with effect from the date of the listing of the entire issued ordinary share capital on the JSE ("**listing date**"), the new memorandum of association tabled at this meeting and signed by the chairman to identify it, in place of the company's existing memorandum of association."

The effect of special resolution number 1 is to adopt a new memorandum of association for the company, which differs from the memorandum of association it will replace by changes to the special conditions in clause 6 and the company's authorised share capital in clause 8. The reason for this special resolution is that, together with special resolutions numbers 2 and 3, it is required to enable the company's major shareholder, the Government of South Africa, to make a listed initial public offering of its shares in the company, pursuant to and in accordance with the terms of the existing shareholders' agreement dated 14 May 1997 among the Minister, Thintana Communications LLC and the company itself.

SPECIAL RESOLUTION NUMBER 2

"Resolved that, subject to the passing and registration of special resolution number 1 and such resolution becoming unconditional in accordance with its terms, the company adopt, with effect from the listing date, the new articles of association tabled at this meeting and signed by the chairman to identify them, in place of the company's existing articles of association."

The effect of special resolution number 2 is to adopt new articles of association for the company which will differ from the articles of association they will replace in the respects and to the extent required to transform them from those of a closely held company to those of a publicly held company so as to enable the company's shares to be listed pursuant to an initial public offering, for the reason set out for special resolution number 1.

SPECIAL RESOLUTION NUMBER 3

"Resolved that, subject to the passing and registration of special resolution number 1 and such resolution becoming unconditional in terms thereof, this company's authorised share capital of R10 000 000 000 divided into 1 000 000 000 ordinary par value shares of R10 each ('**ordinary shares**') shall be altered to R10 000 000 000 divided into 999 999 998 ordinary shares, one Class A ordinary par value share of R10 ("**Class A share**") and one Class B ordinary par value share of R10 ("**Class B share**") and its issued share capital shall accordingly be altered from R5 570 318 190 divided into 557 031 819 ordinary shares to R5 570 318 190 divided into 557 031 817 ordinary shares, one Class A ordinary share and one Class B ordinary share by converting –

- one ordinary share held by the Minister into one Class A share, having the special rights and being subject to the special conditions attached to that share in terms of special resolution number 1 and 2, and which shall accordingly be redesignated as a Class A share;
- one ordinary share held by Thintana Communications LLC into one Class B share, having the special rights and being subject to the special conditions attached to that share in terms of the new articles of association adopted by the company in terms of special resolution number 2, and which shall accordingly be redesignated as a Class B share."

The effect of special resolution number 3 is to alter the company's authorised and issued share capital by creating, through the conversion of two ordinary shares of R1 each, 1 Class A par value share and 1 Class B par value share, of R1 each, for the reason set out for special resolution number 1.

Client Ref:

REPUBLIC OF SOUTH AFRICA
COMPANIES ACT, 1973

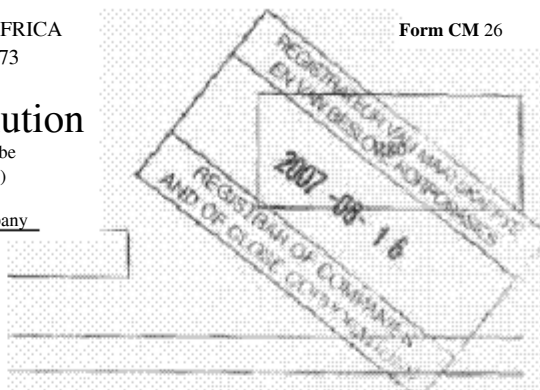
Form CM 26

Special resolution

(Section 200) (To be
lodged in duplicate)

Registration No. Of Company

1991/005476/06



Name of company Telkom SA Limited

Date notice given to members 22 September 2006

Date resolution passed 20 October 2006

Special resolution passed in terms of section 62
of the articles.

of the Act/*~~paragraph~~

~~of the memorandum/*article~~

Copy of notice convening meeting attached.

~~Consent to waive period of notice of meeting (CM35) attached/*not attached~~

CONTENTS OF RESOLUTION

(Use reverse side if necessary)

RESOLVED:

See Annexure

Rubber stamp of company, if any, or of secretaries

Date 21 June 2007

Signature

~~Director/Secretary/Manager~~

Name (in block capitals)

SF Linford

* Delete whichever not applicable

To be completed by company

Herewith copy of special resolution as registered.

Registration No. of Company

1991/005476/06

Name of Company: Telkom SA Limited
Attention: Ms Linford

Postal address: Private Bag X881
PRETORIA
0001



EN VAN BESLOTE
KORPORASIES

Registrar of Companies

2007-08-23

Date stamp of Companies

• Registration Office
REGISTRAR OF COMPANIES
AND OF CLOSE CORPORATIONS

ANNEXURE TO CM 26

RESOLVED THAT:

The Company's Articles of Association be and are hereby amended as follows:

1. In article 1.1.1.9, in line 2, the words "and the Class B reserved matters" is deleted as the Class B reserved matters have ceased to exist.
2. Article 1.1.1.19 is deleted as the provisions thereof have become obsolete.
3. Article 1.1.1.21 is deleted as the Class B reserved matters have ceased to exist.
4. Article 1.1.1.24 is deleted as the provisions thereof have become obsolete.
5. Article 1.1.1.25 is deleted as the provisions thereof have become obsolete.
6. In article 1.1.1.34 the definition of "HRRC" is deleted and replaced with the following: "HRRRC" means the Human Resources Review and Remuneration Committee of the Board, established in accordance with the provisions of article 38;"
7. In article 1.1.1.41 the definition of "management structure" is deleted and replaced with the following to reflect the current management structure, namely:
"management structure" means the senior members of the company's management from time to time, from the level of a managing executive or group executive or its equivalent and higher, including all executive directors, as determined by the board from time to time as a board reserved matter;"
8. In article 1.1.1.46 the definition of "operating committee" is deleted as this committee no longer exists.
9. In article 1.1.1.57 the definition of "strategic services agreement" is deleted as such agreement no longer exists.
10. Article 1.2 is amended in line 1 to delete the reference to clause 26 and to insert the word "and" between the numbers "24" and "25", as clause 26 is deleted herein.
11. Article 21.1 is amended to read as follows:
"Subject to the provisions of the Act, the number of directors shall not be less than 8 (eight) and not more than 11 (eleven)".
12. Article 24.1.3 is deleted as the provisions thereof have become obsolete.
13. Article 24.2 is deleted as the provisions thereof have become obsolete.
14. Article 26 entitled "Class B reserved matters" and the sub articles numbered 26.1, 26.2, 26.3 and 26.4 are deleted as the provisions thereof have become obsolete.
15. Article 27 is amended in line 1 to delete the reference to article 26 as article 26 is deleted herein; in line 4 the word "applicable" is deleted as only one significant shareholder exists.

16. Article 28 is amended as follows to reflect that the Class B Shareholder is not a significant shareholder, namely:
 - a. in article 28.1, line 1 the words "or the Class B shareholder" is deleted;
 - b. in article 28.1.1 in line 3 the words "other than, in relation to the Class B Shareholder, Vodacom," are deleted;
 - c. in article 28.1.1 in line 9 the words "and the Class B Shareholder together" are deleted;
 - d. in article 28.1.2, in line 3 the words "or the Class B director as the case may be" are deleted;
 - e. articles 28.3, 28.4 and 28.5 are deleted; and
 - f. article 28.6 is amended by deleting in line 2 the reference to article 28.5 and substituting same with a reference to article 28.2.
17. Article 33 is amended as follows to reflect that the Class B Shareholder is not a significant shareholder, namely:
 - a. in article 33.2 in line 5, the word "either" is deleted and in lines 5 and 6 the words "or the Class B Shareholder, respectively", is deleted;
 - b. in line 9 the words "each such significant shareholder" is deleted and substituted with the words "the Class A Shareholder";
 - c. in line 10 the word "any" is deleted and substituted with the word "a"; and
 - d. in article 33.5 the semi-colon and the following sentence are deleted in lines 8 and 9 namely "and for as long as the Class B Shareholder is a significant shareholder, the quorum shall include 1 (one) Class B director".
18. Article 34 is amended by the deletion in line 6 of the words "remuneration committee" and the substitution thereof of the words "HRRRC" to reflect that the remuneration committee forms part of the HRRRC.
19. In article 37 the second sentence beginning in line 3 is deleted and substituted with the following:

"No person may serve at the same time as both the CEO and the chairperson of the board unless otherwise determined by the approval of the Class A Shareholder for so long as it remains a significant shareholder; provided that any such approval of the Class A Shareholder may not be given so as to permit a dual appointment in those two capacities for a period of more than 12 (twelve) months."
20. Article 38 is amended as follows:
 - 20.1 the heading "Human Resources Review Committee" is deleted and substituted with the following:

"HUMAN RESOURCES REVIEW AND REMUNERATION COMMITTEE";

- 20.2 all references in article 38 to "HRRRC" is deleted and substituted with a reference to "HRRRC";
- 20.3 article 38.1.1 is deleted and substituted with the following:

"The board shall establish and maintain, the HRRRC consisting of the chairperson of the board, the CEO, the COO, the GE/HR and at least 3 (three) non-executive directors. The HRRRC shall also include the head of training (being the most senior executive responsible for training) as an ex officio non voting member. The non-executive directors shall be appointed to the HRRRC by the board. All members of the HRRRC shall be entitled to vote on HRRRC matters (excluding the head of training). A non-executive director, appointed by the meeting, shall chair the meeting";
- 20.4 articles 38.1.3 and 38.1.4 are deleted as the provisions thereof have become obsolete;
- 20.5 article 38.2 is amended by deleting the provision thereof from and including the third sentence in line 5 beginning with the word "Notwithstanding....";
- 20.6 a new article 38.3.3 is inserted to read as follows:

"review the terms upon which the executive directors and the senior managers of the company are employed and remunerated and upon which non-executive and ordinary directors are remunerated and make recommendations to the board."
- 21 in article 39.2 the following amendments are made to reflect that the Class B Shareholder is no longer a significant shareholder, namely:
 - 21.1 in line 1 the word "either" is deleted;
 - 21.2 in line 1 the words "or the Class B Shareholder" is deleted; and
 - 21.3 in line 1 the word "each" is deleted.
- 22. Article 39.5 is deleted as the provisions thereof have become obsolete.
- 23. Article 40 titled "CLASS B AUDIT RIGHTS" is deleted as the Class B Shareholder is no longer a significant shareholder.
- 24. Article 43 is deleted since no legislation was enacted to sanction the provisions of article 43 as required in terms of article 43.19.
- 25. Article 44 is deleted as the Class B Shareholder is no longer a significant shareholder.
- 26. In article 45 the reference to article 26 is deleted in clause 45.1, in the unnumbered portion of article 45.1 and in article 45.2 as article 26 is deleted herein. The word "articles" are to be changed to "article" in each instance;
- 27. In article 50 the references in line 1 to "operating committee member" and "alternate operating committee member" are deleted and substituted with a reference to "executive committee member" and "alternate executive committee member", respectively.

Client Ref: _____

REPUBLIC OF SOUTH AFRICA
COMPANIES ACT, 1973

Special resolution
(Section 200)
(To be lodged in duplicate)

Registration No. Of Company

1991/005476/06

Agent Code: 005476

Name of company TELKOM SA LIMITED

Date notice given to members 21 SEPTEMBER 2007

Date resolution passed 26 OCTOBER 2007

Special resolution passed in terms of section 55 of the Act/*paragraph of the memorandum/*article of the articles.

Copy of notice convening meeting attached.

Consent to waive period of notice of meeting (CM 25) attached/* not attached.

CONTENTS OF RESOLUTION
(Use reverse side if necessary)

RESOLVED:

REGISTRATEUR VAN MAATSKAPPE
EN VAN BESLOTE KORPORASIES

See Annexure

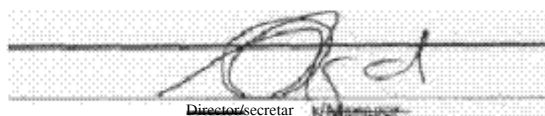
2007 -10- 29

REGISTRAR OF COMPANIES AND
OF CLOSE CORPORATIONS

Rubber stamp of company, if any, or of secretaries.

Date 29 OCTOBER 2007

Signature



Name (in block capitals)

Sandra Felicity Linford

* Delete whichever not applicable

To be completed by Company

Herewith copy of special resolution as registered.

Registration No. of Company

1991/005476/06

Name of Company: TELKOM SA LIMITED

Attn: Ms SF Linford

Postal address: PRIVATE BAG X 881

PRETORIA

0001



ANNEXURE TO CM 26

Special resolution number 1

IT IS RESOLVED THAT the company's memorandum of association be follows: the company's stated main object and main business is deleted and replaced with the following -

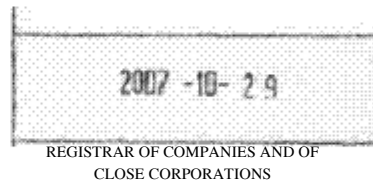
"To supply telecommunication, broadcasting, multimedia, technology, information and other related information technology services to the general public."

REGISTRATEUR VAN MAATSKAPPYE
EN VAN BESLOTE **KORPORASIES**

2007 -10- 3 0

REGISTRAR OF COMPANIES AND
OF CLOSE CORPORATIONS

REGISTRATIUR VAN MAATSKAPPE
EN VAN BESLOTE **KORPORASIES**



SERVICE AGREEMENT

between

TELKOM SA LIMITED
(Reg. No. 1991/005476/06)

and

REUBEN JOSEPH SEPTEMBER
(Identity No. 5709135127018)
(Salary reference no. 1855331)
("employee").

WHEREBY IT IS AGREED AS FOLLOWS

1. INTERPRETATION AND PRELIMINARY

The headings of the clauses in this agreement are for the purpose of convenience and reference only and shall not be used in the interpretation of nor modify nor amplify the terms of this agreement nor any clause hereof. Unless a contrary intention clearly appears -

1.1 words importing -

1.1.1 any one gender include the other two genders;

1.1.2 the singular include the plural and *vice versa*; and

1.1.3 natural persons include created entities (corporate or uncorporate) and the state and *vice versa*;

1.2 the following terms shall have the meanings assigned to them hereunder and cognate expressions shall have corresponding meanings, namely -

1.2.1 "Act" means the Labour Relations Act, 1995;

1.2.2 "board" means the board of directors of the company from time to time;

1.2.3 "company*" means TELKOM SA LIMITED (Reg. No. 1991/005476/06);

1.2.4 "employee" means REUBEN JOSEPH SEPTEMBER (Identity No, 5709135127018)

1.2.5 "group" means collectively the company, any partnership in which the company is a partner, any company which is a holding or subsidiary company of the company and any other company which is a subsidiary of or is controlled by such holding company, and

references to "the group" shall embrace each member thereof individually;

1.2.6 "termination date" means the date upon which the employee's employment by the company is terminated for any reason whatsoever;

1.2 any reference in this agreement to "date of signature hereof shall be read as meaning a reference to the date of the last signature of this agreement;

1.3 any reference to an enactment is to that enactment as at the date of signature hereof and as amended or re-enacted from time to time;

1.4 if any provision in a definition is a substantive provision conferring rights or imposing obligations on any party, notwithstanding that it is only in the definition clause, effect shall be given to it as if it were a substantive provision in the body of the agreement;

1.5 when any number of days is prescribed in this agreement, same shall be reckoned exclusively of the first and inclusively of the last day unless the last day falls on a Saturday, Sunday or public holiday, in which case the last day shall be the next succeeding day which is not a Saturday, Sunday or public holiday;

1.6 where figures are referred to in numerals and in words, if there is any conflict between the two, the words shall prevail;

1.7 where any item is defined within the context of any particular clause in this agreement, the term so defined, unless it is clear from the clause in question that the term so defined has limited application to the relevant clause, shall bear the meaning ascribed to it for all purposes in terms of this agreement, notwithstanding that that term has not been defined in this interpretation clause;

1.8 the expiration or termination of this agreement shall not affect such of the provisions of this agreement as expressly provide that they will operate after any such expiration or termination or which of necessity must continue to have

effect after such expiration or termination, notwithstanding that the clauses themselves do not expressly provide for this,

2. RECOROAL

It is recorded that -

- 2.2. the employee is presently employed by the company;
- 2.3. the employee's employment by the company is governed by an existing agreement which will be substituted by this agreement with effect from 1 December 2007 notwithstanding the date of signature hereof.

3. APPOINTMENT

The company hereby confirms the appointment of the employee as Chief Executive Officer of the company and the employee accepts such appointment, subject to the rights of shareholders at general meetings and the rights of the board.

Notwithstanding any change in the appointment contained herein, for so long as the employee is an executive of the company, the terms and conditions contained herein (particularly those relating to remuneration) shall remain of full force and effect.

4. PERIOD OF EMPLOYMENT

- 4.1 The employee's employment will be governed by the terms of this agreement from 1 December 2007 to 30 November 2010 ("**Initial fixed term**"), thereafter this agreement may be renewed on an annual basis for one year, subject to either party tendering notice of their intention to terminate the agreement on or before the 30th June of the applicable year. For the sake of clarity it is understood that other than in the case of termination by the company as described below, the employee's service will only terminate, following notice being served by either party on or before the prior 30th June, on 30th November 2010 and each subsequent year,
- 4.2 The company shall be entitled to terminate the employee's employment summarily (or on such other basis as it considers appropriate) if the

employee:

- 4.2.1 is guilty of conduct justifying summary dismissal according to the common law; and/or
- 4.2.2 is guilty of conduct which is likely to bring the group into disrepute or is convicted of an offence involving dishonesty; and/or
- 4.2.3 commits a material breach of any of the material terms of this agreement; and/or
- 4.2.4 performs his duties and functions unsatisfactorily; and/or
- 4.2.5 is made redundant and/or retrenched for reasons based on the company's operational requirements; and/or
- 4.2.6 becomes incapacitated, which shall mean that -
 - 4.2.6.1 he is precluded in terms of any statute from holding office as a director; or
 - 4.2.6.2 he has suffered some illness or disability which has precluded him from providing his services hereunder for a period in excess of 240 (two hundred and forty) days in the determination of which intermittent returns to work or service which do not constitute a *bona fide* resumption of duties shall be disregarded.
- 4.3 If the company terminates the employees employment for any reason other than the reasons set out in clauses 4.2.1 to 4.2.4, the employee shall be entitled to receive termination remuneration calculated in accordance with the following formula -

$$A = B/12 \times C$$

where-

A = the termination remuneration payable by the company to the employee

B = the annual guaranteed package received by the employee in respect of the year preceding such termination

C = a number equal to the greater of the number of completed years, as at the termination date, during which the employee was employed by the company (it being recorded that the employee's employment by the company commenced on 9th February 1977) and the number of months remaining in the initial fixed term set out in clause 4.1.

5. EFFECT OF TERMINATION OF EMPLOYMENT

- 5.1 The termination of the employee's employment for any reason whatsoever shall not affect the operation of any provisions of this agreement to the extent to which they confer rights or impose obligations upon the parties which are exercisable or enforceable after the termination date, and such provisions shall to that extent continue to be of full force and effect. The termination of the employee's employment shall furthermore not prejudice any rights which have accrued to the parties as at the termination date.
- 5.2 On termination of employment the employee shall immediately deliver to the company all assets, records, documents, accounts, letters, notes, memoranda and papers of every description within the employee's possession or control relating to the affairs and business of the group whether or not they were originally supplied by the group.

6. SUSPENSION OF EMPLOYMENT

6.1 If the company suspects the employee is guilty of the conduct referred to in clause 4.2.1 and/or 4.2.2 or any other conduct which may, if proved, justify his dismissal, or has committed a breach of any of the terms of this agreement, it may, pending a duly constituted enquiry into the alleged conduct in question, but without prejudice to its right of summary dismissal in terms of clause 4.2 and without giving rise to any claim for damages or otherwise against it, suspend the employee for a period not exceeding 30 days during which the employee shall -

- not be entitled to attend work at the premises of the company
- be entitled to his normal salary

7. DUTIES OF EMPLOYEE

The employee shall -

7.1 devote the whole of his time and attention during the group's normal business hours, and such reasonable amount of additional time as may be necessary, having regard to the exigencies of the business of the group, to the business and affairs of the group and shall not, during any period in which he is employed by the company, without the company's prior written consent, whether as proprietor, partner, director, shareholder, member, employee, consultant, contractor, financier, agent, representative, assistant, trustee or beneficiary of a trust otherwise, and whether for reward or not, directly or indirectly be interested or engaged in or concerned with or employed by any business, trade, undertaking or concern-

7.1.1 other than that of the group; or

7.1.2 which competes with any business carried on by the group,

the undertakings in clauses 7.1.1 and 7.1.2 being separate, provided that he shall not be deemed to have breached his undertakings by reason of-

- 7.1.3 his having *bona fide* financial interest in businesses, trades, undertakings or concerns which do not directly or indirectly compete with the group which have been disclosed to the group in writing and/or after disclosing his intention to do so to the group in writing his accepting appointment as a non-executive director of such businesses, trades, undertakings or concerns and devoting a reasonable amount of time to such financial interest and directorships, provided that no such interest of or activities by the employee are prejudicial to or adversely affect the performance of his duties hereunder; and/or
- 7.1.4 his holding shares in any company the shares of which are listed on a recognised stock exchange if the shares owned by him do not in the aggregate constitute more than 5% (five per cent) of any class of the issued share capital of such company; and/or
- 7.1.5 his being an officer of or holding shares in the group;
- 7.2 obey the orders and directions of the board and shall carry out such functions and duties as are from time to time assigned to him and are consistent with his status and use his utmost endeavours to protect and promote the business and interest of the group and to preserve its reputation and goodwill;
- 7.3 not, during the operation of this agreement or thereafter, regardless of the reason for termination of his employment, use for his own benefit or for the benefit of any other person or divulge or communicate to any person or persons, except to those of the officials of the group whose province it is to know the same, any of the group's secrets or any other information which he may receive or obtain in relation to the group's affairs or its customers or to the working of any process or invention or to any marketing technique which is carried on or used by the group;

- 7.4 be true and faithful to the group in all dealings and transactions whatsoever relating to its business and interests; and
- 7.5 submit to the board reports as may be required of him in connection with the performance of his duties and the business of the group.

8. REMUNERATION PARTICULARS

8.1 Fixed Remuneration

- 8.1.1 As remuneration for his services described above, the company shall pay the employee a basic annual salary which shall be payable in arrears on the 25th day of each month and which shall be subject to review, but not reduction, by the company from time to time, and the next review date will be the 1st April 2008.

- 8.1.2 The annual guaranteed package for the periodst December 2007 to 31st March 2008 will be as follows:

Basic pensionable salary	R3,049,571
Retirement fund - Telkom contribution	R396.444
Other benefits*	R910,515

Annual Guaranteed Package	R4,356,530
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* Other benefits consist of company contribution towards medical aid, motorcar allowance, club fees and other cash benefits.

8.2 Retirement Fund

Membership of the Telkom Retirement Fund is compulsory. The employee's own contribution to the fund will be 7,5% (seven and a half percent) per annum of basic pensionable salary while the employer contribution paid by the company on the employee's behalf will be 13% (thirteen percent) per annum of pensionable salary. The employer contribution is accordingly indicated as such in the fixed remuneration package set out in paragraph 8.1.2. The employee's membership of the fund will always be subject to the rules of the fund,

8.3 Medical aid

- 8.3.1 The employee may join a medical aid scheme recognised by the company.
- 8.3.2 The company contributions to the medical aid are included in the flexible benefits portion of the fixed remuneration package. The employee will be responsible for the full contribution to the Medical Aid as part of the fixed remuneration package.
- 8.3.3 Where the cost of medical aid changes (e.g. marital status, number of dependants, increased contributions, etc.) during any period (annually), the car allowance or pay any other flexible portion of the guaranteed package will be decreased/increased accordingly.
Therefore, all increases in medical aid tariffs will be borne by the employee.
- 8.3.4 The employee will not qualify for post-retirement funding.

8.4 Motor Vehicle

- 8.4.1 The motor vehicle allowance is included in the employee's total fixed remuneration package as set out in paragraph 8.1. It is expected of the employee to make available or purchase a vehicle in order to be able to perform the employee's task. It is expected from the employee to use the employee's own vehicle for business purposes.
- 8.4.2 The employee will be reimbursed for business related travel based on a fixed rate per kilometre. The fixed rate per kilometre is based on the Oxbridge rates (previously Automobile Association) and is reviewed from time to time depending on fluctuation in fuel price. Kilometres travelled between home and workplace is not regarded as business kilometers.
- 8.4.3 The company accepts liability for the comprehensive insurance of the employee's vehicle in accordance with the general conditions and provisions of the Telkom Motor Insurance Policy:
 - 8.4.3.1 It is the employee's responsibility to arrange insurance through Risk Management and any enquiries must be forwarded directly to them.
 - 8.4.3.2 The cost of the insurance of a vehicle is not included in the fixed remuneration package. The insurance premium will be included in the car allowance and reflected on the employee's IRP 5 for tax purposes.
 - 8.4.3.3 The company will not reimburse employees who insure their vehicles with any other insurer outside the Tefkom Insurance Scheme.

8.4.4.4 This will also apply if the employee participation in the Telkom Insurance Scheme is terminated for any reason whatsoever. In such cases, the employee will be liable to arrange and pay for own insurance.

8.4.4 The company will provide a parking facility for the employee at its premises or will lease/rent a parking facility for the employee. The cost of the parking facility will be borne by the company.

8.5 Club Membership

The company agrees to pay the annual club membership fees for the account of the employee on an annual basis and for the duration of the Service Agreement. The employee shall be responsible for any tax consequences arising therefrom.

8.6 Variable Remuneration

8.6.1 The company will pay the employee a bonus at the end of each financial year equivalent to a fraction or a multiple of the basic annual pensionable salary, as the case may be, depending on the achievement of performance criteria established by the board from time to time.

8.6.2 The bonus for the period 1st December 2007 to 31st March 2008 will be as determined by the employee's participation in the Top Management Team Award Plan described in Addendum 1.

8.7 Wealth Creation

The employee is eligible to participate in the Telkom Conditional Share Plan and the conditional shares allocated to the employee will remain in full force and effect in accordance with the rules of the Telkom Conditional Share Plan.

Future allocations will be made with regard to the employee's position, performance and tenure, consistent with the rules prevailing at the time.

9. RETENTION

The employee shall be entitled to a retention payment on signature of the Retention Agreement (Addendum 2) which describes the terms and conditions attached thereto.

10. RESTRAINT OF TRADE

The employee shall be required to enter into a Restraint of Trade Agreement (Addendum 3). In consideration for the restraints and obligations placed on the employee in terms of this agreement, the company will allot, issue and transfer to the employee a total of 52 919 (fifty two thousand nine hundred and nineteen) Tetkom Conditional Shares which is based on the share price of R154.19 (one hundred and fifty four rands and nineteen cents) as on the 5 December 2007, which is equal to the value of R8,713,060 (2 x times annual guaranteed package) at the time of signature. A portion of the shares will be sold to cover the employee's tax liability and the remaining shares will be transferred to Computershare for future trading.

11. TELEPHONE SERVICES

- 11.1 The company accepts responsibility for the installation, rental and usage for one main telephone service for voice and an ADSL broadband connectivity for data (up to 4Mbps) at the residence of the employee. The employee shall be responsible for any tax consequences arising therefrom.
- 11.2 The employee is issued with a cell phone. The employee's limit (inclusive of VAT and rental charges) for calls and the clip facility is unlimited. The cell phone is regarded for business purposes and expenditure will not be taxed.

12. PERSONAL SECURITY

- 12.1 The company is desirous of ensuring the safety and security of the employee's residence.
- 12.2 To this end, subject to approval by the board, the company will bear all costs associated with:
 - 12.2.1 The analysis of and recommendations on the security systems and personnel required to secure the safety of the employee, his family and their possessions.
 - 12.2.2 The installation cost of any security systems,
 - 12.2.3 Security guards/personnel
- 12.3 The capital cost of all equipment including associated improvements to the employee's home will be borne by the employee

13. TRAVEL AND ACCOMMODATION

It is recorded that, to fulfil his functions, the employee shall be required to undertake two overseas business trips per year and three local business trips per year accompanied by his wife, the costs, terms and conditions of which shall be in accordance with the company's normal international travel and local travel practices, such practices being the use of the Business Class airline category and four star accommodation locally and First Class airline category and four or five star accommodation internationally. The employee shall be responsible for any tax consequences arising therefrom.

14. DEDUCTIONS

14.1 The employee agrees to the following deductions to be made by the company from the employee's remuneration package:

14.1.2 medical aid subscription (if applicable)

14.1.3 retirement fund contribution

14.1.4 taxation

14.1.5 company or damages or losses negligently occasioned by the employee.

14.2 The employee will be notified in writing of any amendments to be made to such deductions by the company from time to time which must, unless required by operation of law, be approved in writing by the employee prior to such deductions being made.

15. HOURS OF WORK

15.1 Due to the seniority of the employee's position, flexibility of the employee's working hours is an express term of this contract, The company's operational requirements may, however, never be prejudiced by the employee's choice of working hours.

15.2 The employee acknowledges that by virtue of the employee's position, the employee may be required to work beyond the company's core working hours from time to time, including on Saturdays, Sundays and Public Holidays.

15.3 The employee will not receive additional payment for working beyond the company's normal core working hours or on Saturdays, Sundays and Public Holidays.

16. LOCATION

16.1 The employee will be based in the company's Pretoria offices or at any other location that the company may determine from time to time. The employee may be required to render services at such other location as required by the company from time to time to enable the company to exploit, expand or consolidate its business interests and/or operations,

16.2 In the event of the company intending to transfer the employee permanently to another location, or to second the employee to such location for an extended period, the employee shall not unreasonably refuse to take up such transfer or secondment. If the company was to transfer the employee to another location, the company will pay the reasonable costs incurred with such relocation.

17. ANNUAL LEAVE

The employee will qualify for 26 (twenty six) working days' leave per annum which will accrue at 2.17 (two point seventeen) working days per completed month of service. Of the 26 (twenty six) working days, the employee will have to take at least 15 (fifteen) consecutive working days leave in order to comply with the requirements of the Basic Conditions of Employment Act. The employee will be allowed to accrue leave to a maximum of 25 (twenty five) working days per annum.

18. SICK LEAVE

The employee will qualify for 36 (thirty six) working days' sick leave in a three-year cycle. If the employee needs more than 36 (thirty six) working days in the three-year cycle additional sick leave can in exceptional circumstances be allocated to the employee (this will depend on the employee's sick leave records, etc.). Otherwise this additional sick leave would be without pay. The company reserves the right to request a medical certificate in respect of any period of sick leave.

19. SPECIAL LEAVE AND STUDY LEAVE

19.1 Special leave which includes family responsibility leave, study leave, etc., will be granted in accordance with the company's policies and procedures.

19.2 It is recorded that the company is supportive of any efforts by the employee to enhance his leadership, professional and technical skills. To this end the board, on recommendation by the HRRRC, will approve the investment of time and money so required provided it does not detract from the employee's responsibilities as described above.

20. MEDICAL EXAMINATIONS

If the employee is absent from work regularly for medical reasons or if there is a concern regarding the employee's health, the employee will consent to undergo a medical examination at the cost of the company by a medical practitioner appointed by the company.

21. RETIREMENT

21.1 The employee may retire at any time after the age of 50 (fifty) years, but not later than 65 (sixty five) years, except when the company requests in writing that the employee remains in service, in which case the employee has to retire when reaching the age of 70 (seventy) years.

21.2 The consent of the company is required if the employee wishes to retire between the age of 50 (fifty) and 55 (fifty five) years.

22 CONFIDENTIALITY

22.1 In performing his duties and functions with the company, the employee will have access to non-public information or materials describing or relating to the company, its clients and/or third parties to whom the company has a duty of confidentiality (the "**Third Parties**") including, but not limited to, materials describing or relating to the business, affairs, processes, trade secrets, client lists, trade connections, policies and/or procedures of the company, its clients and/or the Third Parties; formulae, strategies, methods, processes, computer materials (including but not limited to source or object codes, data files, computer listings, computer programs and other computer materials regardless of the medium in which they are stored), and/or other confidential information of the Company, its clients and/or the Third Parties (the "**Confidential Information**").

22.2 With respect to such Confidential Information, the employee agrees that during his employment by the company and thereafter in perpetuity, regardless of the reason for the termination of his employment, he shall:

22.2.1 hold the Confidential Information in strict confidence and will not, nor will he permit any other person to, copy, reproduce, sell, assign, license, market, transfer or otherwise dispose of, give and/or disclose the Confidential Information to any unauthorised person;

22.2.2 take all reasonable steps to minimise the risk of disclosure of the Confidential Information to unauthorised persons, and to ensure the proper and secure storage of any such Confidential Information;

22.2.3 not, during his employment by the company or thereafter, use for his own benefit or for the benefit of any other person or divulge or communicate to any person or persons, except to those officials of the company whose province it is to know same, any of the company's secrets or any other Confidential Information which he may receive or obtain in relation to its affairs or its clients.

22.3 Upon the termination of his employment for any reason whatsoever, the employee shall return to the company any documents, papers or other materials relating to the company or obtained or developed in the course of his employment by the company or containing or derived from the Confidential Information in his possession, and all copies thereof.

23 INVENTIONS, DISCOVERIES, COPYRIGHT AND DOCUMENTS

23.1 Any discovery or invention or secret process or improvement in procedure or novel concept relating to the business of the company made or discovered or innovated by the employee in the course and scope of his employment by the company in connection with or in any way affecting or relating to the business of the company or capable of being used or adapted for use by the company or in connection with its business shall be disclosed to the company and shall belong to and be the absolute property of the company or any other company nominated by it.

23.2 The employee shall, if and when required by the company, apply or join with the company concerned at its expense in applying for Letters Patent or other equivalent protection in the Republic of South Africa or in any other part of the world for such discovery, invention, process, improvement or novel concept and shall at the expense of the company execute all instruments and do all things necessary for vesting the said Letters Patent or other equivalent protection in the

name of the company as sole beneficial owner or in the name of such other company as the company may nominate.

23.3 Insofar as may be necessary the employee hereby assigns to the company the copyright in all present and future works eligible for copyright, including, without limitation, literary works or software programmes of which he may be the author, which works were or are created, compiled, devised or brought into being during the course and scope of his employment by the company. No consideration shall be payable by the company to the employee in respect of this assignment.

23.4 All reports, manuals, financial statements, budgets, indices, research papers, letters or other similar documents (the nature of which is not limited by the specific reference to the foregoing items) which are created, compiled or devised or brought into being by the employee or come into the employee's possession during the course and scope of his employment and all copies thereof will be the property of the company and, on the termination date or earlier if required by the company, such documents and all copies shall be returned to the company.

24 BUSINESS CODE OF ETHICS

The Business Code of Ethics of the company will be applicable to the employee and must be signed by the employee confirming that the employee has read and understood the contents,

25 CONDITIONS OF SERVICE

All the conditions of service of the company, as may be amended from time to time, will be applicable on the employee. It is expected of the employee to study the conditions of service carefully.

26 RESERVATION OF RIGHTS

The board reserves the right to reasonably amend or change, but not reduce the remuneration and benefits of the employee, by mutual agreement.

27 CONFIDENTIALITY AGREEMENT

A confidentiality agreement which forms an integral part of this Agreement, must be signed by the employee, covering a secrecy undertaking. This is a specific condition of employment.

28 RULES AND REGULATIONS

The employee agrees that the employee shall conform to all policies, rules, regulations and procedures in operation at the company from time to time. The rules, regulations and procedures of the company shall form part of this contract of employment and are obtainable from the personnel section,

29 ELECTRONIC AND OTHER COMMUNICATIONS

The employee hereby expressly gives the company permission to intercept, monitor, read, block or act upon any of the employee's electronic and other communications which shall include, but not be limited to, telephonic conversations, e-mails and any stored files.

30 DISPUTES

In the event of any dispute relating to the terms of this agreement or to the fairness of the termination of the employee's employment, the dispute shall be finally resolved by arbitration conducted in accordance with the appropriate rules of the Arbitration Foundation of South Africa, by an arbitrator agreed to between the parties or, failing such agreement, appointment by that Foundation.

31 RESIGNATION AS A DIRECTOR

The employee shall *ipso facto* be deemed on the date on which his employment with the company terminates to have resigned as a director of the company and any company in the group of which he is a director, in which event the employee hereby irrevocably appoints the then company secretary of the company and/or that company in the group as his agent *in rem suam* to sign all such documents and to do all such acts as may be necessary to effect and implement such resignation.

THUS DONE AND SIGNED AT.....ON THIS.....DAY

OF.....2008.

**for and on behalf of:
the company**

AS WITNESSES:

1.

2.

THUS DONE AND SIGNED AT.....ON THIS DAY

OF2008.

RJ SEPTEMBER

AS WITNESSES:

1.

2.

ADDENDUM 1

TOP MANAGEMENT TEAM AWARD PLAN

1. The Top Management Team Award Plan is *based* on the performance of the Telkom Group excluding Vodacom (the Company).
2. The annual Top Management Team Award Plan provides for the creation of a bonus pool to be determined by the Company's earnings per share performance relative to budget (see 3 below), to be distributed on the basis of participant's individual over or under performance against specific quantitative and qualitative criteria (see 4; 5; 6 below), subject to a minimum achievement (see 7 below) and restricted to a maximum payout (see 8).
3. At the Company's budgeted basic earnings per share, the bonus pool is equal to the sum of each participant's maximum bonus. The bonus pool will increase by 4% for every 1% increase *m* the company's basic earnings per share above budget, and decrease by 10% for every 1% decrease in company's basic earnings per share below budget.
4. Each participant will receive a *pro rata* share of the bonus pool equivalent to the participant's Performance Rating as a percentage of the sum of all participants' performance ratings subject to 7 below.
5. The participants Performance Rating will be the sum of the ratings determined by over or under performance against pre determined objectives in the following criteria, which will each account for the designated percentage:
 - ii. Basic Earnings per Share (BEPS) - 35%
 - iii. Return on Assets (ROA) - 35%
 - iv. Customer Centricity - 20%
 - v. Human Resources -10%.

Notes:

The Basic Earnings per Share (BEPS) and Return on Assets (ROA) objectives will be those contained in the annual budget of the Telkom Group excluding Vodacom.

The Customer Centricity objectives will comprise various objectively determined measures which reflect the company's performance in delivering satisfaction to customers. The measures applicable for the 2008 financial year are the SA Customer Satisfaction Index (SACSI) and the Annual Customer Satisfaction Measure (CSM).

The Human Resources measure will comprise various objectively determined measures which reflect the company's performance in human capital management.

The measures applicable for the 2008 financial year are employee engagement and Employment Equity.

6. The participants rating in each of the criteria will be calculated by doubling the percentage achievement above/below the performance objective. (e.g. if actual achievement against the objective is 105% the participants rating will be 110% and if actual achievement against the objective is 90% the participants rating will be 80%)
7. Employees whose individual performance is below 80% will not be eligible to participate in the Top Management Team Award Plan and their portion of the bonus pool will be divided between other participants.
8. The bonus payments are restricted to a maximum of twice the guaranteed package.

INTERCONNECTION AGREEMENT

between

TELKOM SA LIMITED

and

NEOTEL (PROPRIETARY) LIMITED

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INTERCONNECTION AGREEMENT

1. PARTIES

1.1. The Parties to this Agreement are:

1.1.1. Telkom SA Limited; and

1.1.2. Neotel (Proprietary) Limited.

1.2. The Parties agree as set out below.

2. INTERPRETATION

2.1. In this Agreement, unless inconsistent with or otherwise indicated by the context, the following words and terms shall have the meanings ascribed to them below:

2.1.1. “Accommodating Party” means the Party providing accommodation, power, air conditioning and any related facilities at its site which is necessary to house the termination equipment of a POIL to be provided by the Providing Party;

2.1.2. “Accounting Period” means a period of 1 (one) calendar month, terminating at 24:00 on the last day of each calendar month, the first such period commencing, unless otherwise agreed between the Parties in writing, on the Commencement Date;

2.1.3. “the Act” means the Electronic Communications Act, 36 of 2005;

2.1.4. “Actual CICD” means the actual customer installation completion date, being the date on which a POIL is made available by the Providing Party to the Accommodating Party;

2.1.5. “Actual RFO date” means the actual ready for occupation date being the date on which the Accommodating Party actually makes accommodation and other facilities available to the Providing Party, as it is required to do in terms of 10.1;

2.1.6. “Agreement” means this agreement together with all appendices attached thereto;

2.1.7. “Authority” means the Independent Communications Authority of South Africa, established in terms of the Independent Communications Authority of South Africa Act, 13 of 2000, or its successor in title;

2.1.8. “BBZ rates/Beyond Billing Zone rates” means Interconnection Fees payable for Calls handed over from one Party to the other at a POI or POP situated in a particular Billing Zone for termination in a different Billing Zone;

2.1.9. “Billing Information” means the information in respect of Calls handed over between the Parties across a POI during a particular Accounting Period, comprising at least the following details:

- 2.1.9.1. the total duration of all Calls in seconds, separated into the various categories as set out in 6.2 and 6.4;
- 2.1.9.2. the applicable rate groups as set out in 6.2, 6.4 and Appendix 4;
- 2.1.9.3. the Interconnection Fees payable by the Parties to one another as set out in 6.2, 6.4 and Appendix 4;
- 2.1.9.4. information as to the point/s at which the Parties measured the information as set out in 2.1.9.1, 2.1.9.2 and 2.1.9.3 above;
- 2.1.10. “Billing Zone” means a billing area associated with a POI or POP and dialing codes as set out in Appendices 1 and 2;
- 2.1.11. “Business Day” means any day (between 07:30 and 16:30) other than a Saturday, Sunday or official public holiday in the Territory;
- 2.1.12. “calendar month” means a period from the first day to the last day of a month (e.g. 1 January to 31 January, both days inclusive);
- 2.1.13. “Call” means a connection through a Telecommunication System, the object of which is the carriage and successful delivery of a telephony Signal from a Telecommunication System from which such telephony Signal emanates, to communications equipment on a Telecommunication System by which such telephony Signal is to be received, or to communications equipment which provides an automatic response if connection cannot be effected;
- 2.1.14. “Commencement Date” means the date on which this Agreement is filed with the Authority;
- 2.1.15. “Confidential Information” means all information, know-how, ideas, concepts, technology, manufacturing processes, industrial, marketing and commercial knowledge of a confidential nature (whether intangible or in tangible form) relating to or developed in connection with or in support of the business of Telkom or Neotel, as the case may be, and any matter concerned with or arising out of this Agreement ;
- 2.1.16. “Distribution Frame” means a frame on which POILs provided in terms of this Agreement terminate;
- 2.1.17. “DPSU” means a digital primary switching unit in Telkom’s Telecommunication System;
- 2.1.18. “Emergency Organisation” means, in respect of any locality, the relevant public police, fire, ambulance or traffic authority or coast guard services for that locality and any other similar organisation providing assistance to the public in emergencies;
- 2.1.19. “GTTI” means the guaranteed time to install a POIL, for a specified service level option in terms of 9.1;
- 2.1.20. “Interconnection” means the linking of the Parties’ Telecommunication Systems as provided for in this Agreement ;

- 2.1.21. “Interconnection Fees” means the fees and charges payable by the Parties to one another in terms of 6 of this Agreement;
- 2.1.22. “International Call” means a Call which:
- 2.1.22.1. originates on a Telecommunication System in the Territory and terminates on a Telecommunication System outside the Territory, or originates on a Telecommunication System outside the Territory and terminates on a Telecommunication System in the Territory; or
- 2.1.22.2. originates and terminates on a Telecommunication System outside the Territory but is conveyed on Telecommunication Systems in the Territory;
- 2.1.23. “ITE” means an international telephone exchange in Telkom’s Telecommunication System or an international point of presence in Neotel’s Telecommunication System through which International Calls are routed;
- 2.1.24. “ITU-T” means the Telecommunications Standardization sector of the International Telecommunications Union;
- 2.1.25. “Modification” means a change to a Party’s Telecommunication System (excluding routine POIL reconfigurations and routing changes), which requires a change to be made to the other Party’s Telecommunication System in order to allow the continuance of the conveyance of Calls across a POI;
- 2.1.26. “National Call” means a Call which originates on a Telecommunication System located in the Territory and terminates on a Telecommunication System located in the Territory;
- 2.1.27. “Neotel” means Neotel (Proprietary) Limited, a private company duly incorporated in the Republic of South Africa, with registration number 2004/004619/07, and with its registered office at 21E Polo Crescent, Woodmead Office Park, Woodmead, 2052;
- 2.1.28. “Number” means any numerical or alpha-numerical identifier of any end-user device/terminal equipment in relation to any Telecommunication Service;
- 2.1.29. “Number Portability” means a capability whereby a subscriber who so requests can retain his or her Number when changing service from one public switched telecommunication service licensee to another public switched telecommunication service licensee;
- 2.1.30. “Other Licensed Operator” means a person licensed within the Territory to provide Telecommunication Services and such person has entered into an interconnection agreement with either Telkom or Neotel;
- 2.1.31. “Party/ the Parties” means a party to this Agreement or both of them, as the context requires;

- 2.1.32. “POIL Charges” means any amount payable by the Parties to each other in terms of Part II of this Agreement, after any relevant discounts provided for in this Agreement have been taken into account;
- 2.1.33. “Point of Interconnection/POI” means a point on the Distribution Frame located at Telkom’s relevant DPSUs, ITEs or any other point, as set out in Appendix 1, as augmented from time to time;
- 2.1.34. “Point of Interconnection Link/POIL” means a dedicated point-to-point transmission link with a transmission speed of 2 Mbit/s complying with ITU-T recommendations and provided by either Party for the conveyance of Signals between the Parties’ Telecommunication Systems, which shall be configured as a bothway transmission link for traffic purposes and shall include signalling links;
- 2.1.35. “POP” means a physical point of presence as set out in Appendix 2, as augmented from time to time, in Neotel’s Telecommunication System which is used for purposes of Interconnection to a POI;
- 2.1.36. “Providing Party” means the Party providing a POIL as set out in Part II of this Agreement;
- 2.1.37. “Rand or R” means the lawful currency of the Territory;
- 2.1.38. “Scheduled CICD” means the scheduled customer installation completion date, being the date on which the Providing Party anticipates making available a POIL to the Accommodating Party;
- 2.1.39. “Scheduled RFO date” means the scheduled ready for occupation date being the date on which the Accommodating Party undertakes to make accommodation and associated facilities available to the Providing Party, as it is required to do in terms of 10.1, to enable transmission equipment to be installed;
- 2.1.40. “Signal” includes signs, sounds, writing or information of any kind;
- 2.1.41. “Switch” means a node in Telkom’s Telecommunication System at which Signals are switched from one Telecommunication System to the other or are capable of so being switched;
- 2.1.42. “Telecommunication Facility” includes any wire, cable, antenna, mast or other thing which is or may be used for or in connection with communication;
- 2.1.43. “Telecommunication Service” means any service provided by means of a Telecommunication System;
- 2.1.44. “Telecommunication System” means any system or series of Telecommunication Facilities or radio, optical or other electromagnetic apparatus or any similar technical system used for the purpose of communication, whether or not such communication is subject to rearrangement, composition or other processes by any means in the course of their transmission or emission or reception;

- 2.1.45. “Telkom” means Telkom SA Limited, a public company duly incorporated in the Republic of South Africa, with registration number 1991/05476/06 and with its registered office at Telkom Towers North, 152 Proes Street, Pretoria;
- 2.1.46. “Termination Rates” means WBZ rates or BBZ rates or both, as the context requires;
- 2.1.47. “Territory” means the geographic area of the Republic of South Africa, as constituted from time to time;
- 2.1.48. “WBZ rates/Within Billing Zone rates” means Interconnection Fees payable for Calls handed over from one Party to the other at a POI or POP situated in a particular Billing Zone for termination in the same Billing Zone ;
- 2.1.49. “year” means a period of 12 (twelve) calendar months.
- 2.2. Any reference to an enactment is to that enactment as at the date of signature of this Agreement and as amended or re-enacted from time to time.
- 2.3. If any definition contains a substantive provision conferring rights or imposing obligations on a Party, effect shall be given to it as if it were a substantive provision in the body of this Agreement, notwithstanding that it is only in the definition clause.
- 2.4. The clause headings in this Agreement and the Appendices to this Agreement have been inserted for convenience only and shall not be taken into account in its interpretation.
- 2.5. Where figures are referred to in numerals and in words, if there is any conflict between the two, the words shall prevail.
- 2.6. Words and expressions defined in any clause or sub-clause shall, for the purposes of that clause or sub-clause, bear the meaning assigned to such words and expressions in that clause or sub-clause.
- 2.7. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the Republic of South Africa.
- 2.8. In the event of a conflict between the provisions of the Appendices to this Agreement and the main body of this Agreement, the provisions of the main body of this Agreement shall prevail.
- 2.9. Any reference to:
- 2.9.1. the singular shall include the plural and vice versa;
- 2.9.2. natural persons includes legal persons and vice versa;
- 2.9.3. a gender includes the other genders.
- 2.10. The expiration or termination of this Agreement shall not affect such of the provisions of this Agreement that expressly provide that they shall operate after any such expiration or termination or which of necessity shall continue to have effect after such expiration or termination, notwithstanding that the clauses themselves do not expressly provide for this.

- 2.11. Where any period of days or Business Days is to be calculated from a particular day in terms of this Agreement, such period shall be calculated as excluding such particular day and commencing on and including the day or Business Day thereafter. If the aforesaid calculation pertains to days, and the last day falls on a day which is not a Business Day, the last day shall be the next succeeding Business Day.
- 2.12. No rule of construction shall be applied to the disadvantage of a Party because that Party was responsible for or participated in the preparation of this Agreement or any part of it.
- 2.13. The words “include”, “including” and “in particular” shall be construed as being by way of example or emphasis only and shall not be construed as, nor shall they take effect as, limiting the generality of any preceding word/s.
- 2.14. The words “other” and “otherwise” shall not be construed *eiusdem generis* with any preceding words where a wider construction is possible.
- 2.15. The provisions of Chapter III of the Electronic Communications and Transactions Act, 25 of 2002, are hereby excluded in the application, construction and interpretation of this Agreement.

3. INTRODUCTION

- 3.1. Both Telkom and Neotel are holders of public switched telecommunication service licenses granted to them in terms of the Telecommunications Act, 103 of 1996 and validated in terms of the Act.
- 3.2. The Parties wish to establish Interconnection in terms of the Act.
- 3.3. The Parties shall provide POILs in terms of this Agreement, their public switched telecommunication service licences and the Act.
- 3.4. The Parties wish to record the terms and conditions of the ir agreement in relation to the matters contemplated in 3.2 and 3.3 above and matters ancillary thereto.

PART I: INTERCONNECTION OF THE PARTIES' TELECOMMUNICATION SYSTEMS

4. INTERCONNECTION

- 4.1. Each Party shall connect and keep connected its Telecommunication System to the other Party's Telecommunication System in accordance with the provisions of this Agreement, so that Signals may be conveyed to and from each such Telecommunication System.
- 4.2. Telkom shall ensure that POIs exist and are available for Interconnection at the localities set out in Appendix 1, and Neotel shall ensure that POPs exist and are available for Interconnection at the localities set out in Appendix 2. Either Party may, from time to time, add to the aforesaid POPs or POIs, as the case may be, at which it

offers or proposes to offer Interconnection, upon written notification to the other Party. For the avoidance of doubt, an offer or proposed offer as aforesaid shall not affect Interconnection Fees relating to Calls handed over at existing POIs or POPs, until such time as agreement is reached, or resolution in terms of 32 has taken place, as contemplated in 4.3.

- 4.3. Where an offer or proposed offer as contemplated in 4.2 is made by one Party to the other and the offering Party reasonably believes that a reciprocal POI or POP, as the case may be, should be made available, the Parties shall promptly meet and negotiate in good faith to reach agreement in writing to establish Interconnection between the offered or proposed to be offered POI or POP, as the case may be, and the proposed new POI or POP of the other Party. The Parties shall, in the negotiations as aforesaid, take into account, inter alia, factors such as, reasonableness of the offering Party's request for a reciprocal POI or POP, as the case may be, date of commissioning, capacity, mapping of the new POI and POP into the national numbering plan and Interconnection Fees. A request for a reciprocal POI or POP, as the case may be, shall be deemed to be reasonable if the implementation of the request:

- 4.3.1. is technically and financially feasible; and
- 4.3.2. will promote the efficient use of both Parties' Telecommunication Systems; and
- 4.3.3. can be implemented on a reciprocal basis between the Parties; and
- 4.3.4. is not in conflict with either Party's network architecture and routing structures; and
- 4.3.5. will not constitute Interconnection at a level lower than the 0NN code of the national number format as contemplated in the Numbering Plan Regulations published in Government Gazette No 28839 of 15 May 2006 (Notice R.455 of 2006).

Should the Parties fail to reach agreement as aforesaid, the matter shall be deemed to be a dispute to be dealt with and resolved in terms of 32.

- 4.4. The Parties shall establish Interconnection between the POIs and POPs on the dates and at the places set out in Appendix 3.
- 4.5. Should either Party wish to establish Interconnection to POIs or POPs contemplated in Appendices 1 and 2, in addition to those provided for in Appendix 3, the requesting Party shall indicate in writing the capacity required and give the other Party at least 45 (forty five) days notice and the other Party shall ensure that the necessary capacity is available. Should the other Party disagree with the capacity requested, then the Parties shall negotiate in good faith to reach agreement on the capacity to be provided. If the Parties cannot reach agreement as aforesaid, then the lower of the two proposed capacity figures shall be provided and the service quality at the POI shall be monitored by the Parties for a period of 14 (fourteen) days. If necessary, the capacity shall then be increased to achieve the requisite service quality as set out in Appendix 5.
- 4.6. Should either Party wish to increase or decrease the interconnection capacity between a POI and a POP, it shall give to the other Party notice in writing of such intention setting out in detail the proposals and reasons for the proposed change and give the other Party at least 45 (forty five) days notice and the other Party shall ensure that the necessary capacity is available in case of an increase of capacity. Should the other Party disagree

with the capacity adjustment requested, then the Parties shall negotiate in good faith to reach agreement on the capacity adjustment. If the Parties cannot reach agreement as aforesaid, then the capacity in use shall be adjusted in increments whilst monitoring the service quality at the POI until such time as the requisite service quality as set out in Appendix 5 has been reached.

- 4.7. Should either Party wish to terminate the Interconnection between a POI and a POP, it shall give to the other Party notice in writing of such request setting out in detail the reasons for the proposed termination. The Parties shall negotiate in good faith to reach agreement on the termination. If the Parties cannot reach agreement as aforesaid, then Interconnection shall remain, and at the current capacity.
- 4.8. Each Party shall provide to the other Party, in writing, on a 6 (six) monthly basis, for purposes of facilitating each Party's planning and budgeting, a rolling forecast of its expected requirement for capacity between POIs and POPs relating to Interconnection over the coming 2 (two) years.
- 4.9. Each of the Parties undertakes that the POIs or POPs provided for in this 4 shall be operated and maintained in accordance with the operation and maintenance procedures set out in Appendices 7 and 8.
- 4.10. Each Party undertakes to the other that the fulfillment of such Party's obligations in terms of this 4 shall be in accordance with the technical standards, specifications and procedures more fully set out in Appendices 5 and 6.
- 4.11. Each Party shall, at its own cost and expense, provide, maintain and be responsible in all respects, for whatever communications equipment is necessary on its side of a POI, to ensure the conveyance of Calls within and between the Parties' Telecommunication Systems. The foregoing obligation shall exclude POILs which are dealt with in Part II of this Agreement.
- 4.12. For purposes of 6.2, each Party shall, by means of its own Telecommunication System, convey Calls originating on or transiting its Telecommunication System and destined for the other Party's Telecommunication System to POIs and shall convey Calls originating on or transiting the other Party's Telecommunication System and destined for its own Telecommunication System from such POIs to the communications equipment by means of which such Calls are to be received or to any other communications equipment which provides an automatic response if connection cannot be effected.
- 4.13. Neither Party shall make nor permit to be made any alteration, adjustment or addition to any POIs or POPs or any element of its Telecommunication System in such a way as to adversely affect or impair the operation of the Telecommunication System of the other Party or so as to otherwise adversely affect or impair the conveyance of Signals pursuant to Interconnection. Each Party undertakes to take whatever steps are reasonably necessary to minimise service failures and congestion and signaling disturbances which would affect the ability of the other Party to convey Calls on its Telecommunication System.
- 4.14. If Interconnection is interrupted for any reason whatsoever, the Party within whose Telecommunication System such interruption arose shall, at its own cost and expense,

procure a restoration of the service levels in accordance with the operation and maintenance procedures set out in Appendices 7, 8 and 9.

- 4.15. If a Party reasonably believes the other Party to be in breach of any of its obligations in terms of this 4, such Party shall be entitled to require the other Party, from time to time, upon at least 20 (twenty) Business Days written notice to such other Party, to provide it with whatever information and material may reasonably be necessary to enable it to satisfy itself that such other Party is not in breach of any of its obligations in terms of this 4, provided that:
 - 4.15.1. such process shall not interfere with the conduct of such other Party's business or the provision of Telecommunication Services to subscribers of such other Party; and
 - 4.15.2. such notice shall specify the nature of the breach alleged.
- 4.16. Each Party shall be responsible for all costs and expenses incurred by it in fulfilling its Interconnection obligations in terms of this 4.

5. NUMBER PORTABILITY

- 5.1. The Parties shall offer Number Portability to their subscribers.
- 5.2. The Parties shall treat all Calls to ported Numbers no less favourably than the Parties treat calls on their own Telecommunication Systems. Interconnection Fees as contemplated in 6 shall apply in respect of Calls to ported Numbers.

6. INTERCONNECTION FEES

- 6.1. Introduction
 - 6.1.1. In consideration for Interconnection and conveyance of Calls between their respective Telecommunication Systems, the Parties shall pay to one another Interconnection Fees provided for in this 6.
 - 6.1.2. Interconnection Fees payable by the Parties to one another in respect of all Calls shall be calculated in accordance with the provisions of this 6, on a per second basis.
 - 6.1.3. The measuring of a Call's duration shall commence when an answer signal is received across the relevant POI and shall terminate when the Call is cleared down.
 - 6.1.4. Telkom shall measure and record telecommunication traffic and Billing Information at its DPSUs, ITEs or any other point, as set out in Appendix 1, as augmented from time to time, to which Neotel's Telecommunication System is interconnected. Neotel shall measure and record telecommunication traffic and Billing Information at its POPs or any other point, as set out in Appendix 2, as augmented from time to time.
 - 6.1.5. The calculation of Interconnection Fees in respect of any Accounting Period shall be based on Billing Information, for each of the categories of Calls given in 6.2 below.

- 6.1.6. Within 30 (thirty) days of the Commencement Date each Party shall provide the other with a written table (which shall form part of this Agreement) setting out the per minute transit rates applicable to Calls to each Other Licensed Operator, which shall also be applicable to Calls directly routed to ported numbers. The aforesaid transit rate shall include the interconnection charges charged by the relevant Other Licensed Operator to the Party providing the written table.
- 6.1.7. As and when number portability is introduced, each Party shall promptly provide the other with a table setting out the per minute transit rates applicable to Calls to ported Numbers which are indirectly routed. The aforesaid transit rate shall include the routing charges payable to the donor operator as well as the interconnection charges charged by the recipient operator.
- 6.1.8. In the event of a Party negotiating an agreement with an Other Licensed Operator not contained in the written table contemplated in 6.1.6 and 6.1.7, or the aforesaid written table is amended as a result of a change to an agreement with an Other Licensed Operator, the new or amended per minute transit rate/s shall be notified to the other Party in the form of an amended written table. Any new or amended transit rate/s shall be implemented on a date as agreed between the Parties in writing but not more than 45 (forty five) days after provision of the amended written table. Agreement in writing of the implementation date as aforesaid shall be deemed to be an amendment to this Agreement.
- 6.1.9. Within 30 (thirty) days of the Commencement Date each Party shall provide the other, with a written table (which shall form part of this Agreement) setting out of its per minute wholesale international rates per destination and, if applicable, per rate group.
- 6.1.10. In the event of a Party amending the written table contemplated in 6.1.9, the new or amended per minute wholesale international rate/s shall be notified to the other Party in the form of an amended written table. Any new or amended wholesale international rate/s shall be implemented on a date as agreed between the Parties in writing but not more than 45 (forty five) days after provision of the amended written table. Agreement in writing of the implementation date as aforesaid shall be deemed to be an amendment to this Agreement.
- 6.1.11. Within 30 (thirty) days of the Commencement Date each Party shall provide the other, with a written table (which shall form part of this Agreement) setting out the per minute Termination Rate applicable to short-coded Numbers accessible on its Telecommunication System.
- 6.1.12. In the event of a Party implementing new short-coded Numbers accessible on its Telecommunication System not contained in the written table contemplated in 6.1.11, or the aforesaid written table is amended as a result of the discontinuation of a short-coded Numbers on its Telecommunication System, the new or amended per minute Termination Rate shall be notified to the other Party as an amended written table. Any new or amended Termination Rate/s shall be implemented on a date as agreed between the Parties in writing but not more than 45 (forty five) days after provision of the amended written table. Agreement in writing of the implementation date as aforesaid shall be deemed to be an amendment to this Agreement.

- 6.1.13. Within 30 (thirty) days of the Commencement Date each Party shall provide the other with a written table (which shall form part of this Agreement) setting out the per minute Termination Rate applicable to non-geographic service Numbers (excluding premium rated service Numbers) accessible on its Telecommunication System.
- 6.1.14. In the event of a Party implementing new non-geographic service Numbers accessible on its Telecommunication System not contained in the written table contemplated in 6.1.13, or the aforesaid written table is amended as a result of the discontinuation of non-geographic service Numbers on its Telecommunication System, the new or amended per minute Termination Rate shall be notified to the other Party as an amended written table. Any new or amended Termination Rate/s shall be implemented on a date as agreed between the Parties in writing but not more than 45 (forty five) days after provision of the amended written table. Agreement in writing of the implementation date as aforesaid shall be deemed to be an amendment to this Agreement.
- 6.1.15. No Interconnection Fees shall be levied by any Party in respect of Calls made to:
- 6.1.15.1. an invalid, defective or non-existent Number; or
- 6.1.15.2. a Number which is engaged; or
- 6.1.15.3. equipment within a Party's Telecommunication System which provides a voice announcement instead of a notification tone, in respect of Calls contemplated in 6.1.15.1 and 6.1.15.2.

6.2. National, International and transit Calls

- 6.2.1. For National and International Calls terminating on a Party's Telecommunication System handed over from the Telecommunication System of the other Party, where WBZ rates are applicable, the other Party shall pay to the terminating Party, an amount calculated in accordance with the following formula:

$$W = \frac{A \times B}{60}$$

Where

W = the amount in Rand to be paid to the terminating Party in respect of a particular Accounting Period; and

A = the total duration in seconds of all relevant Calls for a particular rate group as specified in 2.1 or 3.1 of Appendix 4, as the case may be, and in respect of such Accounting Period; and

B = the applicable per minute WBZ rate for a particular rate group as specified in 2.1 or 3.1 of Appendix 4, as the case may be.

- 6.2.2. For National and International Calls terminating on a Party's Telecommunication System handed over from the Telecommunication System of the other Party, where BBZ rates are applicable, the other Party shall pay to the terminating Party, an amount calculated in accordance with the following formula:

$$W = \frac{A \times C}{60}$$

Where

W = the amount in Rand to be paid to the terminating Party in respect of a particular Accounting Period; and

A = the total duration in seconds of all relevant Calls for a particular rate group as specified in 2.2 or 3.2 of Appendix 4, as the case may be, and in respect of such Accounting Period; and

C = the applicable per minute BBZ rate for a particular rate group as specified in 2.2 or 3.2 of Appendix 4, as the case may be.

- 6.2.3. For National and International Calls transiting a Party's Telecommunication System, handed over from the Telecommunication System of the other Party and terminating on a Telecommunication System of an Other Licensed Operator, the other Party shall pay to the transiting Party, an amount calculated in accordance with the following formula:

$$X = \frac{A \times D}{60}$$

Where

X = the amount in Rand to be paid to the transiting Party in respect of a particular Accounting Period; and

A = the total duration in seconds of all relevant Calls for a particular rate group in respect of such Accounting Period; and

D = the applicable per minute transit rate as contemplated in 6.1.6, 6.1.7 and 6.1.8 for each particular rate group and Other Licensed Operator.

- 6.2.4. For National and International Calls transiting a Party's Telecommunication System, handed over from the Telecommunication System of the other Party and terminating on a Telecommunication System operated outside the Territory, the other Party shall pay to the transiting Party, an amount calculated in accordance with the following formula:

$$X = \frac{A \times E}{60}$$

Where

X = the amount in Rand to be paid to the transiting Party in respect of a particular Accounting Period; and

A = the total duration in seconds of all relevant Calls for a particular rate group, if applicable, in respect of such Accounting Period; and

E = the applicable per minute wholesale international rate as contemplated in 6.1.9 and 6.1.10 for each international destination and particular rate group, if applicable.

6.3. Non-discrimination

6.3.1. Each Party hereby undertakes in favour of the other:

6.3.1.1. that it will not discriminate against the other Party as far as the provision of Interconnection is concerned; and/or

6.3.1.2. to treat the other Party no less favourably, both in general and in particular, as far as Termination Rates are concerned, than it treats any Third Party. For the purpose of this clause 6.3.1.2, "Third Party" shall mean any person, other than the Parties, who is licensed in terms of the Act to provide telephony services, or third party resellers of either Party's voice traffic.

6.3.2. For the avoidance of doubt, neither Party shall be obliged to charge any Third Party the same Termination Rates as the Termination Rates charged by the other Party to Third Parties.

6.3.3. Notwithstanding the provisions of 6.2, and subject to the provisions of 6.3.4, neither Party shall at any time after the Commencement Date be obliged to pay the Termination Rates as provided for in 6.2, if such Termination Rates exceed the Termination Rates provided by a Party to Third Parties (excluding any particular type of Call as may be agreed to between the Parties in writing).

6.3.4. In the event that either Party alleges that the other Party is providing Termination Rates to any Third Party which are lower than the Termination Rates provided for in 6.2, the alleging Party shall deliver a notice ("the Notice") in writing to the other Party advising it of this alleged occurrence and setting out in reasonable detail the basis for its allegations, whereafter the Parties shall forthwith meet and negotiate, in good faith, with a view to adjusting the Termination Rates set out in 6.2. Should the Parties fail, within 30 (thirty) days of receipt of the Notice, to reach agreement on appropriate adjustments to be made to the Termination Rates or to otherwise resolve the matter, same shall be considered a dispute for purposes of 32 of this Agreement and shall be resolved in accordance with the provisions of 32. The alleging Party shall, pending the final resolution of the dispute in terms of 32, be entitled to reduce, with effect from the date of receipt of the Notice, the Termination Rates provided for in 6.2, to be equal to the relevant Termination Rates provided by the other Party to any Third Party, as alleged in the Notice, provided that should final resolution of the dispute in accordance with 32 not favour the alleging Party, the alleging Party shall forthwith pay to the other Party any sum found to be due and payable to the other Party, together with interest thereon, if applicable, calculated at the prime overdraft rate charged by The Standard Bank of South Africa Limited, from time to time, plus 4% (four percent), nominal annual compounded monthly, calculated with effect from the date of the reduction of the Termination Rates until the date of actual payment.

6.4. Other Interconnection services

6.4.1. No Interconnection Fees shall be levied by either Party against the other in respect of:

6.4.1.1. Calls made to Emergency Organisations which may be accessed by dialling the Number 107, the Number 112, the Number 10111, the Number 10177, or the Number 10178; or

6.4.1.2. Calls routed to Emergency Organisations via centres nominated in writing by either Party to receive such Calls and agreed to in writing by the Parties negotiating in good faith.

6.4.2. No Interconnection Fees shall be levied by either Party against the other in respect of Calls to “toll-free” Telecommunication Services offered on a Party’s Telecommunication System.

6.4.3. Directory services

6.4.3.1. If required by Neotel, national directory enquiry Calls by subscribers of Neotel shall be routed across the POIs to Telkom’s national directory enquiry centres using the Number 1023. Telkom shall route such Calls to the national directory enquiry centre of its choice. WBZ rates as set out in Appendix 4 shall apply.

6.4.3.2. If required by Neotel, international directory enquiry Calls by subscribers of Neotel shall be routed across the POIs to Telkom’s international directory enquiry centre using the Number 0903 or 10903, as the case may be. WBZ rates as set out in Appendix 4 shall apply.

6.4.3.3. If required by Neotel, Telkom shall grant to Neotel direct online access to Telkom’s national directory information database, subject to the following conditions:

6.4.3.3.1. access shall be subject to a separate commercial agreement between the Parties; and

6.4.3.3.2. in addition to any access amount payable by Neotel as contemplated in 6.4.3.3.1, Neotel shall pay to Telkom an amount of R10,000.00 (ten thousand Rand) per calendar month (“the Directory Database Usage Charge”); and

6.4.3.3.3. Neotel shall ensure that all information extracted from Telkom’s directory information database shall be used solely for dealing with online enquires made by its subscribers and that the said information shall not be used to produce directories in any form, downloaded for sale to any other person, or for any other purpose. Neotel shall not acquire any intellectual property rights in any information contained in Telkom’s national directory information database.

6.4.3.4. The provisions of 6.4.3.1, 6.4.3.2 and 6.4.3.3 shall apply, *mutatis mutandis*, in relation to Telkom’s access to the directory services of Neotel once such services are operational, save that Neotel shall notify Telkom of the applicable Numbers for access to such services.

6.4.4. Interconnection of switchboard operator assisted Call services

6.4.4.1. Each Party shall be responsible for rendering its own switchboard operator assisted service, if such is offered to its own subscribers in respect of the booking and establishment of switchboard operator assisted Calls to Numbers on other Telecommunication Systems. Switchboard operators of the one Party's switchboard operator assisted service shall not assist the other Party's switchboard operators of that Party's switchboard operator assisted service. In the case of any switchboard operator assisted Call from one Party's Telecommunication System, terminated or carried on the other Party's Telecommunication System, Interconnection Fees as set out in 6.2 shall apply.

6.4.4.2. The Parties shall not implement an inter-Telecommunication System "reverse charge" Call or "collect" Call service across the POIs.

6.5. Review of various fees

6.5.1. Change to Termination Rates

6.5.1.1. The Termination Rates provided for in 6.2, shall remain unchanged until 31 December 2007, whereafter:

6.5.1.1.1. Telkom shall be entitled to increase its Termination Rates referred to in 6.2; and

6.5.1.1.2. Neotel shall be entitled to increase its Termination Rates referred to in 6.2, once a year with effect from 1 January of each year, provided that notice of such increase is furnished by the Party effecting the increase to the other Party no later than 30 September of the preceding year. Such increase shall be limited to an amount not exceeding the higher of CPI or R0.02 (two cents) and no carry-over of increases not taken from one year to another shall be permissible. The Party effecting the increase shall be responsible for obtaining all approvals and authorizations as might be necessary to enable it to do so. For purposes hereof CPI shall mean the official Consumer Price Index as calculated for the twelve-month period ending on 31 August of the year preceding the increase.

6.5.2. Notwithstanding the provisions of 6.5.1, any Party may decrease its Termination Rates at any time.

6.6. Payment

All Interconnection Fees owing by one Party to the other in terms of this Agreement shall be paid in accordance with the provisions of 13.

7. CALLING LINE IDENTIFICATION ('CLI')

7.1. Subject to the remaining provisions of this 7, the Parties agree to forward CLI to each other across any POI, irrespective of whether or not the CLI has been restricted for the forwarding thereof to other end-users, provided that such forwarding is feasible, technically or otherwise.

- 7.2. Where CLI has been restricted by the subscriber, the forwarding thereof shall be:
 - 7.2.1. forwarded to the other Party in a restricted mode; and
 - 7.2.2. utilized by the other Party for internal technical purposes, forwarding thereof to Other Licensed Operators and lawful interception purposes only.
- 7.3. Where the forwarding of CLI has been restricted by the subscriber and this restriction has been correctly communicated to the other Party, the Party receiving such CLI shall under no circumstances permit or enable in any way such CLI to be forwarded and/or presented on any terminal equipment within its Telecommunication System and shall, in addition, not make available such CLI to any third party. "Third party" for the purposes hereof includes, but is not limited to, subscribers, parties operating or providing services on that Party's Telecommunication System (e.g. value added- and information service providers), agents, subcontractors and service providers, their employees and representatives.
- 7.4. Should either Party allow the forwarding of CLI contrary to the provisions of 7.2 and/or 7.3, and fail to terminate such practice within 2 (two) days of receipt or deemed receipt from the other Party of a written demand for it to do so, the offending Party shall be in breach of this Agreement.
- 7.5. The Parties shall not amend/manipulate the CLI as presented to each other in respect of any Calls crossing a POI.
- 7.6. Neither Party can guarantee the integrity of any CLI in respect of Calls originating on a Telecommunication System outside the Territory.

PART II: POILs FOR THE INTERCONNECTION OF THE PARTIES' TELECOMMUNICATION SYSTEMS

8. PROVISION OF POILs

- 8.1. Accommodation Principles
 - 8.1.1. Unless otherwise agreed between the Parties, the following principles shall be applied where the Accommodating Party provides accommodation for housing transmission equipment belonging to the Providing Party and used for the provision of POILs:
 - 8.1.1.1. transmission equipment of the Providing Party shall be housed in a separate partitioned area in the Accommodating Party's building with independent access or in an external container on the property on which the Accommodating Party's building is located;
 - 8.1.1.2. adequate mast space if required, power (dc and ac), air-conditioning and earthing shall be provided by the Accommodating Party;
 - 8.1.1.3. tie cable and ducting between the Parties' equipment shall be provided by the Accommodating Party;

- 8.1.1.4. boundary access for underground cables and fibres shall be provided by the Accommodating Party. Dual access shall be provided in cases where POILs need to be provided with route diversity (platinum services);
- 8.1.2. The items set out in 8.1.1 above shall be provided by the Accommodating Party free of charge to the Providing Party provided that the transmission equipment so housed is used solely and exclusively for purposes of Interconnection and provided further that all transmission equipment shall remain the sole and exclusive property of the Providing Property.
- 8.1.3. In the event that the Providing Party wishes to utilize any of the transmission equipment aforesaid for the provision of services to third parties from the Accommodating Party's site where POIL/s terminate, the Providing Party shall be required to enter into a written site leasing agreement with the Accommodating Party on commercial terms and conditions, in which case 8.1.2 shall cease to apply.
- 8.2. Party providing POIL/s
- 8.2.1. In respect of capacity as envisaged in 4.5 and Appendix 3 either Party may request the establishment of POIL/s between a POI and POP.
- 8.2.2. Any request as contemplated in 8.2.1 shall be directed in writing to the address or telefax number of the person nominated in writing by either Telkom or Neotel, as the case may be, from time to time during the term of this Agreement and shall contain at least the following information:
- 8.2.2.1. the detailed physical addresses of the relevant POIs and POPs, such addresses to include the street and stand numbers as well as the longitude and latitude co-ordinates of such points, indicated in degrees, minutes and seconds;
- 8.2.2.2. the number of POILs required between the relevant POIs and POPs;
- 8.2.2.3. the package options for the relevant POIL/s (e.g. T1, P3, etc.) required as set out in 8.9 below;
- 8.2.2.4. the date on which such POIL/s are required.
- 8.2.3. Each request contemplated in 8.2.2 shall be signed by a duly authorized signatory of the requesting Party and shall reflect the date on which it is submitted to other Party and shall either be hand delivered or telefaxed to the person nominated by either Party in terms of 8.2.2.
- 8.2.4. Pricing shall be established to determine whether Telkom or Neotel will be the Providing Party. The comparator shall be Telkom's pricing as set out in Appendix 10, after all relevant discounts have been taken into account. Within 5 (five) Business Days of the request for POIL/s as envisaged in 8.2.3 has been received or deemed to have been received, Neotel shall provide Telkom in writing with documentation setting out its lower pricing. The Parties shall then promptly meet to determine whether the pricing provided by Neotel is in fact lower than Telkom's discounted pricing as set out in Appendix 10. Should Neotel fail to respond as aforesaid Telkom shall provide the relevant POIL/s.

- 8.2.5. The decision as to who shall be the Providing Party, shall be subject to the ability of the other Party to provide the necessary accommodation as set out in 8.1. If the other Party is unable to provide the necessary accommodation as aforesaid, the Parties shall meet and negotiate, in good faith, with a view to agreeing on who should be the Providing Party and the applicable terms and conditions.
- 8.2.6. Should the Parties fail to reach agreement as to whether Neotel's pricing is in fact lower than Telkom's pricing as set out in Appendix 10, after all relevant discounts have been taken into account, the Parties shall then promptly meet and consult with one another in order to try to resolve the dispute. Failing resolution of the dispute within 5 (five) Business Days, the dispute may be referred by Telkom for investigation and determination by a firm of auditors agreed to between the Parties or, failing agreement, by a firm of auditors nominated by the President, for the time being, of the South African Institute of Chartered Accountants. Such auditors shall, in their determination of the dispute act as experts and not as arbitrators and their decision shall be final and binding on the Parties. The Parties shall co-operate in any such investigation. The independent auditor's costs shall be paid by Telkom in the event that Neotel's pricing is found to be in fact lower than Telkom's discounted pricing as set out in Appendix 10, otherwise the independent auditor's costs shall be paid by Neotel.
- 8.3. Once it has been established which Party will be the Providing Party, the Accommodating Party shall place a written order for each relevant POIL on the Providing Party. The order shall contain the following:
- 8.3.1. the detailed physical addresses (POP and POI) of each relevant POIL, such addresses to include the street and stand numbers as well as the longitude and latitude co-ordinates of such points, indicated in degrees, minutes and seconds;
- 8.3.2. a unique reference number for each POIL, in a format to be agreed upon between the Parties in writing;
- 8.3.3. the package option for each relevant POIL (e.g. T1, P3) required;
- 8.3.4. the date on which each relevant POIL is required;
- 8.3.5. a site plan for the Accommodating Party's end of each POIL, indicating the exact location where the POIL in question is required to terminate, as well as a physical floor plan indicating the proposed location of the Providing Party's equipment; and
- 8.3.6. for the Accommodating Party's end of each POIL, the Scheduled RFO date.
- 8.4. The date of receipt or deemed receipt of the written order as set out in 8.3 shall be deemed to be acceptance of the order and shall be the date upon which a separate agreement between Telkom and Neotel comes into existence for the provision of each relevant POIL, which agreement shall then be referred to as "an/the order" for the purposes of this Agreement and such separate agreement shall be subject to the terms and conditions of this Agreement.
- 8.5. The Providing Party shall provide POIL/s in accordance with 9 and 10 below.

- 8.6. Notwithstanding anything to the contrary contained in this 8, in respect of a change of capacity as envisaged in 4.6, the Providing Party in terms of 4.5 and Appendix 3 between a relevant POI and POP, shall be the Party responsible for the provision of any additional POIL/s.
- 8.7. The Providing Party shall utilize the technology which it has available and which it, in its reasonable discretion, considers to be the most suitable in each instance.
- 8.8. POIL/s provided in terms of this Agreement shall be in compliance with the technical specifications set out in Appendix 6, shall be operated and maintained in accordance with the procedures set out in Appendix 7 and Service Levels shall apply as set out in Appendix 9.
- 8.9. POIL/s shall be either permanent POIL/s or temporary POIL/s and shall be as ordered in terms of this 8. The package options are given in the table below.

Type of POIL	Package Option	Contract Period (Years)	Service Level Option
Temporary	T1	Less than 1 year	Bronze
	T2	Less than 1 year	Silver
Permanent	P1	1	Silver
	P2	3	Silver
	P3	4	Silver
	P4	5	Silver
	P5	4	Platinum
	P6	5	Platinum

- 8.10. If it is foreseen that maintenance response times could be affected in individual instances due to, but not limited to, travelling time from maintenance centres to remote or inaccessible sites, the Providing Party may propose to Accommodating Party that special conditions should apply to the POIL in question and this proposal shall be negotiated in good faith between the Parties with a view to agreement in writing.

9. INSTALLATION TIMES

- 9.1. The applicable GTTI for the various service level options, as set out in Appendix 9, shall be as set out in the following table.

Service Level Option	GTTI (where required infrastructure already exists)	GTTI ("Greenfield" situation – see Note 1)
Bronze	45 days	60 days
Silver	45 days	60 days
Platinum	60 days	120 days

Note 1: A "Greenfield" situation means that new infrastructure, including, without limitation, buildings, cables, associated switching nodes and/or transmission nodes needs to be deployed to support the service.

- 9.2. The Providing Party shall not be obliged to provide POILs in a shorter time than the applicable GTTI. The Providing Party shall nevertheless attempt to comply with delivery dates requested by the Accommodating Party.

- 9.3. The Providing Party shall have a period of 30 (thirty) days from the Actual RFO date to install, commission and test its transmission equipment and make available any particular POIL. For the avoidance of doubt, any delays caused by the Accommodating Party in meeting its obligations in terms of 10 shall result in the obligations of the Providing Party in terms of 9.1 and 9.2 being extended by a period of equal duration, without penalties as envisaged in 9.4 being incurred.
- 9.4. Should the Providing Party fail to provide a POIL within the applicable GTTI, extended as set out in 9.3, if applicable, then the Providing Party shall grant a rebate to the Accommodating Party, on a linear sliding scale from GTTI to 2 (two) times GTTI, at which point the rebate shall amount to 50% (fifty percent) of the installation fee.

The following formula details the calculation of the late delivery rebate:

$$\text{Rebate} = \frac{(\text{Actual installation in days}) - \text{GTTI}}{\text{GTTI}} \times (0.5 \times \text{installation charge})$$

to a maximum of 50% of the installation fee

- 9.5. Applicable discounts on the installation charges, as set out in 11 and Appendix 10 (in the case of Telkom), shall be taken into account prior to calculating the rebates envisaged in 9.4. If Neotel offers discounting in its pricing, then these discounts shall similarly be taken into account.
- 9.6. The Accommodating Party shall provide the Providing Party with a summary detailing the information and calculations in support of its claim for any late delivery rebate applicable to a POIL. The Parties shall, within 15 (fifteen) Business Days of receipt or deemed receipt by the Providing Party of such summary, resolve any discrepancies and reconcile between themselves the value of the late delivery rebates owed to the Accommodating Party. The provisions of 13.4 shall apply to late delivery rebates.

10. DELIVERY PROCESS FOR POILs

- 10.1. The Accommodating Party shall be responsible for making available, at no cost to the Providing Party, accommodation, power, mast space, ducting and other facilities as more fully set out in 8.1, for purposes of housing the transmission equipment of the Providing Party. The Accommodating Party shall be responsible for obtaining all necessary approvals and consents and the Accommodating Party indemnifies the Providing Party against all or any losses or damages which the Providing Party may suffer as a result of the failure to obtain the necessary approvals and consents.
- 10.2. The Accommodating Party shall ensure that from the date of an order as envisaged in 8.4, the Accommodating Party's site is immediately available for access by the Providing Party for purposes of planning the transmission access. The Parties record that the accommodation at the aforesaid site, at this stage of the process, may not necessarily be in compliance with the accommodation requirements, and may in fact not yet have been constructed.
- 10.3. The Providing Party may in its discretion conduct a site visit. Whether or not a site visit is conducted, the Providing Party shall within 10 (ten) days from the date of receipt or deemed receipt of the order, provide to the Accommodating Party, in writing, details regarding the transmission medium to be used to provide transmission access to the site,

access and ducting requirements, mast space and any other special requirements pertaining to the site in question.

- 10.4. The Accommodating Party shall, within 2 (two) days of receipt or deemed receipt of the advice by the Providing Party in terms of 10.3, notify the Providing Party in writing of any change to the Scheduled RFO date, failing which the Scheduled RFO date shall remain unchanged.
- 10.5. The Providing Party shall, within 3 (three) days of being notified by the Accommodating Party in terms of 10.4, notify the Accommodating Party in writing of the Scheduled CICD for the POIL. This Scheduled CICD shall be provided by the Providing Party to the Accommodating Party for planning purposes only, and the Providing Party reserves the right to amend the Scheduled CICD if the Providing Party is unable by reason of circumstances beyond its control to meet the Scheduled CICD, or if the Actual RFO date is later than the Scheduled RFO date.
- 10.6. The Accommodating Party shall notify the Providing Party in writing as soon as the necessary accommodation and facilities as required in terms of this 10 are available for occupation by the Providing Party and the date so notified, or the date of receipt or deemed receipt of the said notification, whichever is the later, shall constitute the Actual RFO date.
- 10.7. After installation of the POIL and testing by the Providing Party to confirm that the POIL is functioning in accordance with the performance standards as laid down in Appendix 6, the Accommodating Party shall be provided by the Providing Party with a written completion certificate. The date of this completion certificate by the Providing Party stating that the POIL is available for use by the Parties, shall be the Actual CICD, subject to 10.8.
- 10.8. After any tests which the Accommodating Party may wish to perform on the POIL, but in any event no later than 5 (five) Business Days following the receipt or deemed receipt of the completion certificate as set out in 10.7, the Accommodating Party shall by way of facsimile forward to the Providing Party the signed completion certificate, or alternatively by way of facsimile advise the Providing Party of any problems which may have been detected during such testing, in which event the Providing Party shall forthwith correct such faults and amend the Actual CICD accordingly. The Accommodating Party shall by way of facsimile forward to the Providing Party the signed completion certificate after the aforesaid faults have been corrected.
- 10.9. The Parties shall only use a POIL for purposes of carrying live traffic after the signed completion certificate has been forwarded to the Providing Party by the Accommodating Party.

11. SHARED POIL CHARGES

- 11.1. All charges payable in terms of this Agreement (less any applicable discounts) in consideration for the provision by any Party of POILs, shall be split between Telkom and Neotel on a 50:50 basis. This ratio is based on the assumption that 50% (fifty percent) of all telecommunications traffic (measured in minutes) between Telkom's Telecommunication System and Neotel's Telecommunication System will flow from Telkom's Telecommunication System to Neotel's Telecommunication System and 50%

(fifty percent) of all such traffic will flow from Neotel's Telecommunication System to Telkom's Telecommunication System.

- 11.2. Since traffic flows change over time, the Parties agree to annually determine (at the end of the calendar month following the calendar month in which the Commencement Date anniversary occurs), a traffic flow ratio for the preceding year based on total traffic between the Parties' Telecommunication Systems.
- 11.3. The ratio as determined in accordance with 11.2, shall be agreed in writing and shall apply as from the first day of the second calendar month following the calendar month in which the determination is made. Agreement in writing as aforesaid shall be deemed to be an amendment to this Agreement.

12. DISCONTINUATION OF POILs

- 12.1. After expiry of the initial contract period of a POIL, the POIL shall remain in service and the POIL Charges shall remain the same as for the period initially contracted, until such time as the POIL is discontinued.
- 12.2. Any POIL may only be discontinued by mutual agreement as contemplated in 4.6 and 4.7.
- 12.3. Save for any unbilled or arrear POIL Charges, the Parties shall have no other liability to the each other whatsoever for the discontinuation of a POIL.

PART III: BILLING PROCEDURES

13. BILLING PROCEDURES

- 13.1. Interconnection Fees
 - 13.1.1. Each Party undertakes to measure and record, at its own cost and expense, the duration of Calls crossing the POIs.
 - 13.1.2. Each Party shall provide to the other, on an exchange basis, an accounting summary containing the Billing Information relating to its measurements in both directions (as contemplated in 13.1.1) applicable to the immediately preceding Accounting Period no later than 10 (ten) Business Days after the expiry of each Accounting Period.
 - 13.1.3. Each Party shall submit a tax invoice to the other Party in respect of the Interconnection Fees owed to it by the other Party, in respect of the immediately preceding Accounting Period, by no later than 10 (ten) Business Days after it has received the accounting summary referred to in 13.1.2, provided that prior to submission of such tax invoices the Parties shall use their best endeavours to resolve any discrepancies which may exist in the Billing Information contained in their respective accounting summaries as exchanged. Unless otherwise agreed by the Parties in respect of a particular Accounting Period, each Party shall base its tax invoices on its own measurements and records pertaining to the duration of Calls it receives from the Telecommunication System of the other Party.

13.2. Directory Database Access Charge

13.2.1. In consideration for the use of Telkom's national directory enquiry database as set out in 6.4.3.3.2, Telkom shall provide Neotel with tax invoices in respect of the Directory Database Usage Charge due to it, monthly in advance, on or before the 10th (tenth) Business Day of the calendar month to which such invoice relates.

13.2.2. The provisions of 13.2.1 shall apply equally to Telkom in relation to Telkom's access to the directory services of Neotel once such services are operational.

13.3. POIL Charges

13.3.1. In consideration for the provision, in accordance with the terms of this Agreement, of POIL/s by the Providing Party, the Accommodating Party shall, subject to the remaining provisions of this 13, pay to the Providing Party POIL Charges per POIL in the amounts set out in Appendix 10, in the case of Telkom and in the case of Neotel, the pricing as determined in terms of 8.2, as the case may be.

13.3.2. Discounts in the proportions as set out in 11, Appendix 10 in the case of Telkom and in the case of Neotel, any discounts provided for in the pricing as determined in terms of 8.2, as the case may be, shall apply.

13.3.3. The Providing Party shall provide the Accommodating Party with tax invoices in respect of all POIL Charges due by the Accommodating Party on the following basis:

13.3.3.1. for any installation charge and/or outstanding rentals not yet invoiced, in arrears; and

13.3.3.2. for any other charges monthly in advance;

on or before the 10th (tenth) Business Day of the Accounting Period to which such invoice relates.

13.4. Rebates in respect of service levels and late delivery for POILs

13.4.1. Rebates for service levels (as set out in Appendix 9) and late delivery (as set out in 9.6) shall apply to POILs, subject to the remaining provisions of this 13.

13.4.2. Each Party shall provide to the other tax invoices in respect of all rebates due to it within 10 (ten) Business Days after expiry of the 10 (ten) Business Day period allowed for the resolution and reconciliation of rebates as set out in 9.6 and Appendix 9.

13.5. After-hour repair fees, fault location fees and call-out fees

13.5.1. After-hour repair fees, fault location fees and call-out fees as set out in Appendix 7 shall be payable by the Parties to each other, subject to the remaining provisions of this 13.

13.5.2. The Parties shall provide each other with tax invoices in respect of all fees as set out in 13.5.1 due to them within 10 (ten) Business Days after expiry of the 10 (ten)

Business Day period allowed for the resolution and reconciliation of such fees owed to and by each Party as set out in Appendix 7.

13.6. Telecommunication System Modifications

The Parties shall provide each other with tax invoices in respect of all fees for Modifications as contemplated in 18, subject to the remaining provisions of this 13.

13.7. General billing and payment terms

- 13.7.1. Amounts reflected in any tax invoice shall be payable to the invoicing Party by the invoiced Party within 30 (thirty) days of receipt or deemed receipt of such tax invoice. Notwithstanding 2.11, should payment be due on a Sunday then payment shall be made on the preceding Saturday. Should payment be due on a public holiday in the Territory, payment shall be made on the preceding Business Day or Saturday, whichever is the later day, when commercial banks are open for business.
- 13.7.2. If either Party fails to pay any amount due by it under this Agreement within the period referred to in 13.7.1, the other Party shall be entitled to charge and receive interest from such Party at the prime overdraft rate charged by The Standard Bank of South Africa Limited, from time to time, plus 4% (four percent), nominal annual compounded monthly, calculated from the date payment was due until the date of actual payment in full.
- 13.7.3. If either Party disputes the amount reflected as being payable by it in terms of any tax invoice delivered to it by the other Party, such Party shall deliver a notice in writing, before payment is due in terms of the invoice to which the dispute relates, to the invoicing Party, containing details of such dispute and:
- 13.7.3.1. within 5 (five) Business Days of receipt or deemed receipt of such notice, the invoicing Party shall furnish the other Party with whatever documents and material as may be reasonably required by such other Party to verify the amount reflected as being payable by it in the relevant tax invoice; and
- 13.7.3.2. the Parties shall then promptly meet and consult with one another in order to try to resolve the dispute. Failing resolution of the dispute within 12 (twelve) Business Days following receipt or deemed receipt of the notice referred to in this 13.7.3, the dispute may be referred by the Party disputing such tax invoice for investigation and determination by a firm of auditors agreed to between the Parties or, failing agreement, by a firm of auditors nominated by the President, for the time being, of the South African Institute of Chartered Accountants. Such auditors shall, in their determination of the dispute act as experts and not as arbitrators and their decision shall be final and binding on the Parties. The Parties shall co-operate in any such investigation and any sum found to be due or overpaid shall promptly be paid or refunded (together with any interest payable or paid as the case may be, pursuant to 13.7.2), within 30 (thirty) days of the date of such determination. The independent auditor's costs shall be paid by the Party disputing the tax invoice in question unless such tax invoice is established to have been incorrect in which case the invoicing Party shall pay such costs.
- 13.7.4. Notwithstanding the provisions of 13.7.3:

- 13.7.4.1. if an amount in dispute represents less than 5% (five percent) of the total amount (excluding VAT) of the tax invoice in question, the invoiced amount shall nonetheless be payable in full by the invoiced Party;
- 13.7.4.2. if the amount in dispute represents 5% (five percent) or more of the total amount (excluding VAT) of the tax invoice in question, such disputed amount shall not be payable;

pending determination by the auditors pursuant to 13.7.3.

- 13.7.5. Each Party shall maintain, keep and retain, in an easily accessible form, for a period of 5 (five) years from the submission by it to the other Party of any tax invoice, accurate books of account and information contained in or on magnetic discs, tapes, documents or such other records, as may reasonably be required to enable such other Party to calculate or verify any amount payable by it in respect of such tax invoice.
- 13.7.6. Should a Party ("the first Party") be able to reasonably show that it believes that the other Party ("the second Party") is in breach of its obligations in terms of this 13, the second Party shall from time to time permit the first Party during normal business hours and at reasonable times, accompanied by an authorized representative of the second Party, upon at least 30 (thirty) days written notice, to inspect the billing and accounting equipment owned or controlled by the second Party to the extent reasonably necessary to satisfy the first Party that the second Party is not in breach of any of its obligations in terms of this 13, provided that:
 - 13.7.6.1. any such inspection shall be conducted in such a way as to cause a minimum of inconvenience to the activities of the second Party and not to interfere with the provision of Telecommunication Services to subscribers of the second Party;
 - 13.7.6.2. the first Party shall take whatever steps are reasonably necessary to facilitate the conduct by the second Party of a thorough and speedy investigation.
- 13.7.7. Notwithstanding any dispute between the Parties as to any payment, the Parties shall, throughout the term of this Agreement, remain obliged to observe and perform their respective obligations in terms of this Agreement.
- 13.7.8. It is recorded that the failure of a Party to collect any amount owing to it by its subscribers or any of its subscribers for any reason whatsoever, shall in no way affect or undermine such Party's payment obligations to the other Party in terms of this Agreement.

PART IV: GENERAL

14. PROTECTION OF THE PARTIES' TELECOMMUNICATION SYSTEMS

- 14.1. Each Party undertakes not to do or permit to be done or omit or permit the omission of anything in relation to its Telecommunication System which may reasonably be expected to damage or materially interfere, in any way whatsoever, with the proper and normal operation of the other Party's Telecommunication System.

- 14.2. Each Party (“the first Party”) shall, as soon as is reasonably practicable after receipt or deemed receipt of a written request to this effect from the other Party (“the second Party”), provide the second Party with whatever information and assistance is reasonably necessary to enable the second Party to satisfy itself as to first Party’s compliance with its obligations in terms of 14.1; provided that the second Party shall, in the exercise of its rights in terms of this 14.2, act reasonably, and provided further that the second Party shall not, in the exercise of such rights, do anything which may inhibit or interfere with the proper and normal operation by the first Party of its Telecommunication System.

15. SAFETY

Telkom and Neotel shall each, at their own cost and expense, take whatever steps are reasonably necessary to procure that the fulfillment of their respective obligations and exercise of their respective rights in terms of this Agreement shall not endanger the health and safety of any Party’s employees, agents, directors, sub-contractors and subscribers.

16. FAULT REPORTING AND RESOLUTION

Telkom shall provide to Neotel and Neotel shall provide to Telkom the operations and maintenance services set out more fully in Appendices 7 and 8 for the purpose of enabling Telkom or Neotel, as the case may be, to report any Fault in respect of Interconnection or POILs provided by either Party to the other Party. The Parties shall follow the Fault reporting procedures as set out in Appendices 7 and 8.

17. NUMBERING

- 17.1. Each Party shall provide to the other Party a detailed list of approved numbering that has been allocated to that Party by the Authority.
- 17.2. Should either Party’s numbering be amended by the Authority, such Party shall provide the other Party with written notice of such amendment no less than 30 (thirty) days or any shorter period agreed to in writing by the Parties, prior to the date of the anticipated implementation of the numbering.

18. TELECOMMUNICATION SYSTEM MODIFICATION

- 18.1. A Party intending to implement a Modification shall give to the other Party written notice of such Modification not less than 180 (one hundred and eighty) days or any shorter period agreed to in writing by the Parties, prior to the date of the anticipated Modification. The notice shall specify the technical details and planned date of the Modification. Following such notification each Party shall supply to the other such information as the other may reasonably request including in the case of the Party giving the notice, details of the potential impact on the other Party’s Telecommunication System.
- 18.2. The Party receiving the notice pursuant to 18.1 shall notify the other Party as soon as practicable, but in any event not more than 30 (thirty) days after receipt of such notice,

of any changes required to that Party's Telecommunication System and if the provisions in 18.6 do not apply, a quotation for the cost of such changes calculated on the basis of the minimum cost consistent with good engineering practice.

- 18.3. If the Party giving the notice pursuant to 18.1 agrees to the changes required to the other Party's Telecommunication System and agrees to the quotation (if any) in respect thereof, the Parties shall use their best endeavours to agree to a plan within 60 (sixty) days or such shorter period agreed to in writing by the Parties on receipt of the notice referred to in 18.2, to implement the Modification. The Party requiring the Modification shall carry out such Modification in accordance with the agreed plan.
- 18.4. If the provisions in 18.6 do not apply, and if the Party giving the notice pursuant to 18.1 does not agree to the changes required to the other Party's Telecommunication System and/or to the quotation (if any) in respect thereof, that Party shall so notify the other Party and the matter shall be treated as a dispute in terms of 32. The Party giving the notice pursuant to 18.1 shall not implement the relevant Modification until the dispute is resolved.
- 18.5. On completion of the changes on its Telecommunication System and if the provisions of 18.6 do not apply, the Party receiving the notice pursuant to 18.1 shall invoice the other Party for such changes on its Telecommunication System, for an amount not exceeding the agreed quotation.
- 18.6. Each Party shall pay its own costs arising out of the Modification if:-
 - 18.6.1. the Parties agree in writing to change their respective Telecommunication Systems for their mutual benefit; or
 - 18.6.2. the Modification is lawfully directed by a competent court of law, government- or regulatory body; or
 - 18.6.3. the Modification is a change to a Party's numbering system, which change is consistent with an upgrade path agreed to by the Authority or numbering changes occasioned by notification from international operator/s.
- 18.7. If a Party makes a Modification, it shall ensure that Calls handed to it by the other Party are not adversely affected or impaired in a material way as a result of such Modification and such Party shall use its best endeavours to minimise any adverse effect of such Modification on the other Party.

19. TESTING

- 19.1. The Parties undertake to co-operate fully with one another in the development of mutually acceptable procedures for the testing and clearance of Faults occurring on POILs, or otherwise affecting the Telecommunication Systems of the Parties, these procedures being set out in Appendices 7 and 8.
- 19.2. The Parties agree that testing of POILs and the clearance of Faults for the other Party shall be carried out by each Party according to procedures and standards applied by it within its own Telecommunication System.

20. OFFER OR REQUEST FOR NEW OR EXISTING SERVICES

- 20.1. If either Party wishes to offer or acquire access to any new or existing service accessible through Interconnection and not contemplated in this Agreement to or from the other Party to which subscribers of any Party may enjoy access through Interconnection, it shall notify such other Party in writing of its offer or request, as the case may be.
- 20.2. The Parties shall then meet and negotiate in good faith in order to reach agreement in writing as to the terms and conditions which will govern access to the offered or requested new or existing service.

21. INTELLECTUAL PROPERTY RIGHTS

- 21.1. Nothing contained in this Agreement shall be construed to confer or be deemed to confer on either Party any rights or licences in the intellectual property of the other Party.
- 21.2. For the purposes of this 21 “intellectual property” means whatever trademarks (whether registered or not) inventions, patents (both registered and unregistered), copyrights, registered and unregistered designs, know-how and other intellectual property vesting in a Party by the operation of law.

22. OPERATIONAL LIAISON

- 22.1. The Parties shall consult together regarding the operation and implementation of this Agreement and shall use their best endeavours to resolve any problems arising from such consultation or otherwise encountered in relation to this Agreement.
- 22.2. Without prejudice to the provisions of 22.1, the Parties shall each, within 3 (three) Business Days of the Commencement Date appoint a representative and notify the other Party in writing of the identity of such appointee. Any representatives appointed by the Parties before the Commencement Date, shall be deemed to have been appointed hereunder. Such representative shall, together with the representative of the other Party, be responsible for overseeing the day-to-day practical implementation of this Agreement including, without limitation, the following matters:
 - 22.2.1. numbering
 - 22.2.2. physical and electrical interface(s);
 - 22.2.3. provisioning (including commissioning);
 - 22.2.4. transmission;
 - 22.2.5. synchronization;
 - 22.2.6. signaling;
 - 22.2.7. call accounting;

- 22.2.8. maintenance;
 - 22.2.9. augmentation of capacity;
 - 22.2.10. prevention of fraud;
 - 22.2.11. malicious call tracing;
 - 22.2.12. new or modified features and services including time scales for implementation; and
 - 22.2.13. any other technical and operational matters which may arise from time to time.
- 22.3. Each of the representatives contemplated in 22.2 shall liaise with the other and report to the Party appointing him on any problem which has not proved capable of resolution. On receipt of such report, the Parties shall consult forthwith with one another with a view to achieving a mutually acceptable solution to such problem.
- 22.4. Unless otherwise provided for in this Agreement, each Party shall give the other at least 7 (seven) days notice in writing of any change which it intends to make in respect of the identity of the person charged with operational liaison on its behalf.

23. FORCE MAJEURE

- 23.1. No Party to this Agreement shall be liable for any failure to fulfill its obligations hereunder where such failure is caused by circumstances outside the reasonable control of such Party, including, without limitation, any Act of God, insurrection or civil disorder, war or military operations, national or local emergency, acts or omissions of Government, labour disputes of any kind (whether or not involving the Party's employees), fire, lightning or explosion caused by circumstances outside the reasonable control of such Party (each an "event of force majeure").
- 23.2. The Party affected by the event of force majeure shall within 1 (one) day or as soon as possible notify the other Party in writing of the estimated extent and duration of such inability to perform its obligations.
- 23.3. Upon cessation of circumstances leading to the event of force majeure, the Party affected by such event of force majeure shall within 1 (one) day or as soon as possible notify the other of such cessation.
- 23.4. If as a result of the event of force majeure, the performance by either Party of such Party's obligations under this Agreement is only partially affected, such Party shall nevertheless remain liable for the performance of those obligations not affected by the event of force majeure.
- 23.5. If the event of force majeure continues for a period of 6 (six) months or less from the date of any notification thereof in terms of 23.2, any and all obligations outstanding shall be fulfilled by the Party who has been unable to perform due to the event of force majeure as soon as possible after cessation of the event of force majeure, save to the extent that such fulfillment is no longer practically possible or is not required by the other Party.

- 23.6. If the event of force majeure continues for more than 6 (six) months from the date of any notification thereof in terms of 23.2 and notice of cessation in terms of 23.3 has not been given and such event of force majeure prevents the affected Party from performing its obligations in whole or in part during that period, the other Party shall be entitled (but not obliged) to terminate this Agreement by giving not less than 30 (thirty) days written notice to the affected Party after expiry of such 6 (six) month period to that effect; provided that such notice shall be deemed not to have been given if a notice of cessation given in terms of 23.3 of the event of force majeure is received or deemed to be received by the unaffected party prior to the expiry of such 30 (thirty) days.
- 23.7. If this Agreement is not terminated in terms of the provisions of 23.6, any obligations outstanding shall be fulfilled by the party who is unable to perform due to the event of force majeure as soon as reasonably practicable after the event of force majeure has ended, save to the extent that such fulfillment is no longer possible or is not required by the other party.

24. LIMITATIONS ON LIABILITY

- 24.1. Each Party ("the Indemnifying Party") indemnifies the other ("the Innocent Party") against all liability or loss arising directly from (and any reasonable cost, charge or expense incurred in connection with):
- 24.1.1. damage to or loss of any equipment, facility or other property of the Innocent Party caused by the intentional or negligent act or omission of the Indemnifying Party or its employees, sub-contractors, directors or agents arising out of or in connection with this Agreement; and
- 24.1.2. any action, claim, suit or demand by any person against the Innocent Party in respect of or arising out of any intentional or negligent act or omission of the Indemnifying Party or its employees, sub-contractors, directors or agents arising out of or in connection with this Agreement.
- 24.2. Neither Party shall be obliged to indemnify the other Party in terms of the provisions of this 24 to the extent that the loss, liability, cost, charge or expense suffered or sustained by such other Party is the result of any breach by such other Party of any of its obligations in terms of this Agreement.
- 24.3. Save as otherwise provided for in this Agreement, neither Party shall be liable to the other for any indirect or consequential loss, liability, damage or expense suffered by such other Party and flowing from any cause of action arising out of this Agreement.

25. COMMENCEMENT

This Agreement shall commence on the Commencement Date.

26. TERMINATION, DURATION AND BREACH

- 26.1. This Agreement shall, subject to the remaining provisions of this 26, endure throughout the term of each Party's public switched telecommunication service licence, or any

renewal thereof or the reissue of such licence in substantially the same form, whichever terminates first.

26.2. If a Party to this Agreement:

- 26.2.1. fails to pay any amount due by it in terms of this Agreement by the due date, and fails to remedy such breach within 90 (ninety) days of written notice to do so; or
- 26.2.2. commits a material breach of any other provision of this Agreement and fails to remedy such breach within 90 (ninety) days of written notice to do so; or
- 26.2.3. takes steps to place itself, or is placed in liquidation, whether voluntary or compulsory, or under judicial management, in either case whether provisionally or finally; or
- 26.2.4. take steps to deregister itself or is deregistered; or
- 26.2.5. fails to satisfy a substantial judgment against that Party within 21 (twenty one) days after that Party becomes aware of the judgment, except if that Party provides evidence on an ongoing basis to the reasonable satisfaction of the other Party that steps have been initiated within the 21 (twenty one) days to appeal, review or rescind the judgment and to procure suspension of execution of that judgment and that such steps are being expeditiously pursued. The period of 21 (twenty one) days shall run from the date on which the judgment becomes final, or the date on which the attempts to procure the suspension of the execution fail. A breach of this 26.2.5 shall be regarded by the Parties as a fundamental breach of the Agreement.

26.3. In the event of any breach as contemplated in 26.2, the breaching Party shall be in default.

26.4. If a Party is in default, the aggrieved Party shall be entitled, in addition to all other remedies to which it may be entitled at law, or in terms of this Agreement, to cancel this Agreement.

26.5. Upon the termination for any reason whatsoever of this Agreement all amounts then owing by one Party to the other Party shall become immediately due and payable.

27. **REVIEW**

27.1. A Party may seek to amend this Agreement by serving on the other Party a review notice at any time during the currency of this Agreement. A review notice shall set out in reasonable detail the issues to be discussed between the Parties. On service of a review notice, the Parties shall forthwith negotiate in good faith the matters to be resolved with a view to agreeing the relevant amendments to this Agreement, having regard to the provisions of the Act.

27.2. For the avoidance of doubt, the Parties agree that notwithstanding service of a review notice, this Agreement shall remain in full force and effect.

28. CO-OPERATION

The Parties shall co-operate and consult with each other in good faith regarding the implementation of this Agreement, with a view to achieving the aims and objectives of this Agreement.

29. RELATIONSHIP BETWEEN THE PARTIES

- 29.1. Nothing in this Agreement shall create any relationship of agency, partnership or joint venture between Telkom and Neotel and no Party shall hold itself out as agent or partner of the other or as being in a joint venture with the other.
- 29.2. No Party is entitled to contract on behalf of the other Party, nor shall it hold itself out to any Party as having the authority to contract on behalf of the other Party in any way.

30. SEVERABILITY

If any term, condition, agreement, requirement or provision contained in this Agreement is held by any court having jurisdiction to be unenforceable, illegal, void or contrary to public policy, such term, condition, agreement, requirement or provision shall be of no effect whatsoever upon the binding force or effectiveness of any of the remainder of this Agreement, it being the intention and declaration of the Parties that had they or either of them known of such unenforceability, illegality, invalidity or that the provision was contrary to public policy, they would have entered into a contract, containing all the other terms and conditions set out in this Agreement.

31. CESSION

No Party shall cede, assign, transfer, encumber or delegate any of its rights or obligations in terms of this Agreement without the prior written consent of the other Party and such other consents as may be necessary.

32. DISPUTE RESOLUTION

- 32.1. Should any dispute arise between the Parties, including, but not limited to:
 - 32.1.1. the formation or existence of; or
 - 32.1.2. the implementation of; or
 - 32.1.3. the interpretation or application of the provisions of; or
 - 32.1.4. the Parties' respective rights and obligations in terms of or arising out of; or
 - 32.1.5. the breach or termination of; or
 - 32.1.6. the validity, enforceability, rectification, termination or cancellation, whether in whole or in part of; or

- 32.1.7. any documents furnished by the Parties pursuant to the provisions of, this Agreement, or which relate in any way to any matter affecting the interests of the Parties in terms of this Agreement, the Parties shall meet within 2 (two) days of written notice of the dispute from one Party to the other (or such longer period as mutually agreed by the Parties in writing) to negotiate in good faith in an effort to settle such dispute.
- 32.2. Should the Parties fail to resolve any dispute between themselves within 3 (three) Business Days of the meeting referred to in 32.1 (or such longer period as mutually agreed by the Parties in writing), the Parties undertake to meet promptly and consider whether or not the dispute should be referred to arbitration. If the Parties agree in writing that the dispute should be referred to arbitration, such dispute will be determined by arbitration in accordance with the remaining provisions of this clause relating to arbitration; provided that if the Parties fail to reach agreement in writing to refer the dispute to arbitration within a period of 2 (two) Business Days of meeting in terms of this 32.2, then either Party will be entitled to commence litigation proceedings against the other Party, in a court of competent jurisdiction.
- 32.3. Notwithstanding anything to the contrary contained in this 32, neither Party shall be precluded from obtaining interim, injunctive or similar relief from a court of competent jurisdiction.
- 32.4. The arbitration shall be held:
- 32.4.1. in accordance with the rules of the Arbitration Foundation of Southern Africa or its successor in title ("the Foundation");
- 32.4.2. in Johannesburg, in the English language;
- 32.4.3. it being the intention of the Parties that the arbitration shall be held and completed within 21 (twenty one) days of its commencement.
- 32.5. The arbitrator shall be, if the matter in dispute is principally:
- 32.5.1. a legal matter, an impartial practicing advocate or impartial practicing attorney of at least 10 (ten) years' standing;
- 32.5.2. an accounting matter, an impartial practicing chartered accountant of at least 10 (ten) years' standing;
- 32.5.3. a technical matter, an impartial telecommunications expert in the relevant telecommunications field of at least 10 (ten) years standing;
- 32.5.4. any other matter, any independent person(s), agreed upon between the Parties to the dispute.
- 32.6. Should the Parties to the dispute fail to agree whether the dispute is principally a legal, accounting, or other matter within 7 (seven) days after the Parties' agreement to refer the dispute to arbitration, the matter shall be deemed to be a legal matter.

- 32.7. Should the Parties fail to agree on an arbitrator within 10 (ten) days after the matter was referred in terms of 32.2 to arbitration, the arbitrator shall be appointed by the Foundation at the request of either Party to the dispute, the Foundation to take into account the provisions of 32.5.
- 32.8. The decision of the arbitrator (including an award in respect of the costs of the arbitration) shall be final and binding on the Parties after the expiry of a period of 30 (thirty) days from the date of the arbitrator's ruling and may be made an order of a court of competent jurisdiction at the instance of either of the Parties, subject to the Parties rights of appeal in terms of 32.9.
- 32.9. Either Party may appeal the decision of the arbitrator within a period of 30 (thirty) days after the ruling has been handed down by the arbitrator by giving notice to that effect to the other Party, such notice to be received before the expiry of the 30 (thirty) day period. The appeal shall be submitted to arbitration in Johannesburg in accordance with the rules of the Foundation by a panel of 3 (three) independent arbitrators appointed by the Foundation.
- 32.10. The decision of the panel of arbitrators on appeal and as provided for in 32.9 above, shall, in the absence of manifest error, be final and binding on the Parties to the arbitration and may be made an order of a court of competent jurisdiction at the instance of any Party to the arbitration. The panel of arbitrators shall make an award of the costs of the appeal.
- 32.11. The Parties hereby consent to the non-exclusive jurisdiction of the High Court of South Africa (Transvaal Provincial Division) for the purposes of this 32.
- 32.12. The Parties agree to keep the arbitration, including the subject matter of the arbitration and the evidence heard during the arbitration, confidential and not to disclose it to anyone except for the purposes of an order to be made in terms of 32.8 and 32.10.
- 32.13. The provisions of this clause:
- 32.13.1. constitute an irrevocable consent by the parties to any proceedings in terms of this 32 and neither Party shall be entitled to withdraw there from or claim at any such proceedings that it is not bound by such provisions;
- 32.13.2. are severable from the rest of this agreement and shall remain in full force and effect despite the termination of or invalidity for any reason of this agreement, or any part of this agreement.
- 32.14. The Parties shall continue to perform all undisputed obligations where possible whilst any dispute is being resolved.

33. CONFIDENTIALITY

- 33.1. Subject to the provisions of 33.2, the Parties undertake to each other that they shall use all reasonable endeavours to ensure that their directors, employees, agents and sub-contractors shall keep secret all Confidential Information and shall not disclose such Confidential Information to any third party.

- 33.2. The provisions of 33.1 shall not apply to information which:
- 33.2.1. is in or comes into the public domain other than by default of one of the Parties; or
 - 33.2.2. is or has already been independently generated by the Party disclosing such information; or
 - 33.2.3. is disclosed to satisfy a lawful order by a competent court of law, government- or regulatory body; or
 - 33.2.4. is in the possession of or is known by the receiving Party prior to its receipt from the disclosing Party; or
 - 33.2.5. is authorized to be disclosed by the disclosing Party in writing but then only to the extent of the authority given; or
 - 33.2.6. is properly disclosed pursuant to and in accordance with any telecommunication service licence granted to Telkom or Neotel in terms of the Act, or in accordance with any relevant statutory obligation or (with the prior written consent of the other Party), in order for either Party to comply with the requirements of any recognized Stock Exchange.
- 33.3. Confidential Information which is the subject of the provisions of 33.1 shall be used only for the purpose for which it was disclosed and/or for the purposes of performing the obligations of the Parties in terms of this Agreement.
- 33.4. Confidential Information which is the subject of the provisions of 33.1 may be disclosed to sub-contractors of the parties; provided that all such sub-contractors shall, prior to receiving any such information, enter into a confidentiality undertaking with the disclosing Party, to give effect to the intention of this clause.
- 33.5. The provisions of this clause shall apply with effect from the Commencement Date until 60 (sixty) months after the date of termination or expiry of this Agreement.

34. **VALUE-ADDED TAX**

All of the prices referred to in this Agreement are exclusive of Value-Added Tax (“VAT”) and any other tax, duty or charge payable thereon. Accordingly, any Party which renders a service to the other Party in terms of this Agreement shall be entitled to add VAT, at the prescribed rate, in terms of the Value-Added Tax Act, 1991, to the value of any supply rendered by it to the other Party.

35. **NOTICES AND DOMICILIA**

- 35.1. The Parties choose as their domicilia citandi et executandi their respective addresses set out in this clause for all purposes arising out of or in connection with this Agreement, at which addresses all processes and notices arising out of or in connection with this Agreement, its breach or termination, may validly be served upon or delivered to either of the Parties.

35.2. For the purposes of this Agreement the Parties' respective addresses shall be –

35.2.1. As regards Telkom: Telkom Towers North
152 Proes Street
Pretoria
0001

For the attention of:

1. the Managing Executive, Legal Services
in respect of any legal process.

Telefacsimile: (012) 326-4493

2. the Managing Executive, Wholesale Services
in respect of all other notices for the purposes
of this Agreement

Telefacsimile: (012) 341-5228

35.2.2. As regards Neotel: 21E Polo Crescent
Woodmead Office Park
Van Reenen Road
Woodmead
2052

For the attention of:

1. Legal and Regulatory Affairs Group
in respect of any legal process.

Telefacsimile: (011) 800-6162

2. Product Management Group
in respect of all other notices for the purposes
of this Agreement

Telefacsimile: (011) 800-6162

or at such other address, not being a post office box or poste restante, of which the
Party concerned may notify the other Party in writing.

35.3. Any notice given or other document sent in terms of this Agreement shall be in writing
and shall –

35.3.1. if delivered by hand be deemed to have been duly received by the addressee on the
date of delivery;

35.3.2. if posted by prepaid registered post be deemed to have been received by the
addressee on the 10th (tenth) Business Day following the date of such posting;

35.3.3. if transmitted by facsimile be deemed to have been received by the addressee on the
1st(first) Business Day after dispatch;

35.4. Notwithstanding anything to the contrary contained in this Agreement, a written notice
or communication actually received by one of the Parties from another including by

way of facsimile transmission shall be adequate written notice or communication to such Party.

36. **WHOLE AGREEMENT**

This Agreement constitutes the whole Agreement between the Parties as to the subject matter of this Agreement and no agreements, representations or warranties between the Parties other than those set out herein shall be binding on the Parties.

37. **VARIATION**

No addition to or variation, consensual cancellation or novation of this Agreement and no waiver or release of any right arising from this Agreement or its breach or termination shall be of any force or effect unless reduced to writing and signed by both the Parties or their duly authorized representatives, or in the case of waiver or release, by the Party so waiving or releasing.

38. **RELAXATION**

No latitude, extension of time or other indulgence which may be given or allowed by either Party to the other in respect of the performance of any obligation hereunder or the enforcement of any right arising from this Agreement and no single or partial exercise of any right by either Party shall under any circumstances be construed to be an implied consent by such Party or operate as a waiver, release or a novation of, or otherwise affect any of that Party's rights in terms of or arising from this Agreement or estop such Party from enforcing, at any time and without notice, strict and punctual compliance with each and every provision or term of this Agreement.

39. **WARRANTIES**

Each Party warrants to the other Party that it has the necessary rights, licences and authorities to enter into and perform its obligations in terms of this Agreement.

Signed at on 2007

As witness:

.....

.....

For Telkom
duly authorized

Signed at on 2007

As witness:

.....

.....

For Neotel
duly authorized

TELKOM POINTS OF INTERCONNECTION

CONTENTS

1. GENERAL
2. POINTS OF INTERCONNECTION

TELKOM POINTS OF INTERCONNECTION

1. GENERAL

This Appendix sets out a schedule of POIs offered by Telkom and may be augmented by Telkom from time to time.

2. POINTS OF INTERCONNECTION

- 2.1. For National Calls between the Parties' Telecommunication Systems as well as International Calls from Neotel's Telecommunication System terminating on Telkom's Telecommunication System

POI alpha code	POI Name (DPSU)	Billing Zone	Dialing codes directly served by POI	Physical Address of POI
BCS	Bloemfontein - Charles Street	1	05	Telkom Building, 57 Charles Street, Bloemfontein
BCY	Bloemfontein - City			Telkom Building, 57 Charles Street, Bloemfontein
CBS	Cape Town - Barrack Street	2	02	Telkom Building, 59 Commercial Street, Cape Town
CTB	Cape Town - Tygerberg			Telkom Building, 27 Teddington Street, Belville
DNG	Durban - New Germany	3	03	Telkom Building, 3 Regal Street, Kloof
DTM	Durban - Taj Mahal			Centrex Building, 296 Pine Street, Durban
JDF	Johannesburg - New Doornfontein	4	011	Telkom Building, 80 Siemmert Road, New Doornfontein
JGM	Johannesburg - Germiston			Telkom Building, 1 Clark Street, Germiston
JNL	Johannesburg - Newlands			Telkom Building, Cnr Main and Shortmarket Streets, Newlands
JRB	Johannesburg - Rosebank			Telkom Building, 167 Oxford Road, Rosebank
PDO	Port Elizabeth - Donkin	5	04	High Tech Building, 1A Neil Street, Sidwell
PLZ	Port Elizabeth - Linton Grange			Telkom Building, 508 Cape Road, Linton
PBN	Pretoria - Bronberg	6	012, 013, 014 and 015	Telkom Building, Cnr Plein and Spuy Streets, Sunnyside
PPR	Pretoria - Proes Street			PPR Building, 179 Proes Street, Pretoria
VVE	Vereeniging	7	016, 017 and 018	Telkom Building, Cnr Merriman and Lesly Streets, Vereeniging

VME	Meyerton		Telkom Building, Cnr Kruger and Eeufes Streets, Meyerton
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- 2.2. For International Calls from Neotel transiting Telkom's Telecommunication System to a foreign destination or International Calls from Telkom transiting Neotel's Telecommunication System to a foreign destination

POI alpha code	POI name (ITE)	Physical address of POI
JB	Johannesburg - New Doornfontein	Telkom Building, 80 Siemmert Road, New Doornfontein
JS	Johannesburg - Hillbrow	Telkom Building, Goldreich Street, Hillbrow

- 2.3. For signaling purposes

STP alpha code	STP node name	Physical address of STP node
JBZ	Johannesburg - New Doornfontein	Telkom Building, 80 Siemmert Road, New Doornfontein
JSZ	Johannesburg - Hillbrow	Telkom Building, Goldreich Street, Hillbrow
JNZ	Johannesburg - Newlands	Telkom Building, Cnr Main and Shortmarket Streets, Newlands
PRZ	Pretoria - Proes Street	PPR Building, 179 Proes Street, Pretoria

NEOTEL POINTS OF PRESENCE

CONTENTS

1. GENERAL
2. POINTS OF PRESENCE

NEOTEL POINTS OF PRESENCE

1. GENERAL

This Appendix sets out a schedule of POPs offered by Neotel and may be augmented by Neotel from time to time.

2. POINTS OF PRESENCE

- 2.1. For National Calls between the Parties' Telecommunication Systems as well as International Calls from Telkom's Telecommunication System terminating on Neotel's Telecommunication System

POP alpha code	POP name	Billing Zone	Dialing codes directly served by POP	Physical address of POP
BFX	Bloemfontein POP	1	05	Transtel Building, 1 Charles Street, Bloemfontein
BLE	Bellville POP	2	02	Transtel Building, Caledon West Street, Bellville
DNR	Durban Station POP	3	03	CTC Building, Durban Station, Umgeni Road, Durban
NST	North Station POP	4	011	North Station Building, 96 Leyds Street, Johannesburg
NED	North End POP 5		04	Transtel Building, cnr Broad and Paterson Roads, North End, Port Elizabeth
PRY	NZASM POP	6	012, 013, 014 and 015	NZASM Building, Minnaar Street, Pretoria
VER	Vereeniging Metro POP	7	016, 017 and 018	Transtel Building, Reg Bodmer Street, Vereeniging

- 2.2. For International Calls from Neotel transiting Telkom's Telecommunication System to a foreign destination or International Calls from Telkom transiting Neotel's Telecommunication System to a foreign destination

POP alpha code	POP name	Physical address of POP
NST	North Station POP	North Station Building, 96 Leyds Street, Johannesburg

2.3. For signaling purposes

STP alpha code	STP node name	Physical address of STP node
NEJ	North Station POP	North Station Building, 96 Leyds Street, Johannesburg
NEC	Bellville POP	Transtel Building, Caledon West Street, Bellville

INITIAL INTERCONNECTION AND CAPACITY

CONTENTS

1. GENERAL
2. INITIAL INTERCONNECTION AND CAPACITY

INITIAL INTERCONNECTION AND CAPACITY

1. GENERAL

This Appendix sets out the initial capacity and POILs that shall be established between the Parties' Telecommunication Systems for Interconnection. It details the routes, number of POILs, date required, signalling type and the contracted service level.

2. INITIAL INTERCONNECTION AND CAPACITY

- 2.1. For National Calls between the Parties' Telecommunication Systems, International Calls from Neotel's Telecommunication System terminating on Telkom's Telecommunication System as well as International Calls from Telkom's Telecommunication System terminating on Neotel's Telecommunication System

Neotel POP alpha code	Telkom POI alpha code	Number Of POILs	Signalling System	Contracted Service Level For POILs	RFS Date
BFX	BCS	4	SS7	Platinum	28 th February 2007
BFX	BCY	4	SS7	Platinum	28 th February 2007
BLE	CBS	8	SS7	Platinum	28 th February 2007
BLE	CTB	8	SS7	Platinum	28 th February 2007
DNR	DTM	8	SS7	Platinum	28 th February 2007
DNR	DNG	8	SS7	Platinum	28 th February 2007
NST	JGM	8	SS7	Platinum	28 th February 2007
NST	JRB	8	SS7	Platinum	28 th February 2007
NST	JNL	8	SS7	Platinum	28 th February 2007
NST	JDF	8	SS7	Platinum	28 th February 2007
NED	PDO	4	SS7	Platinum	28 th February 2007
NED	PLZ	4	SS7	Platinum	28 th February 2007
PRY	PPR	4	SS7	Platinum	28 th February 2007
PRY	PBN	4	SS7	Platinum	28 th February 2007
VER	VVE	2	SS7	Platinum	28 th February 2007
VER	VME	2	SS7	Platinum	28 th February 2007

- 2.2. For International Calls from Neotel transiting Telkom's Telecommunication System to a foreign destination or International Calls from Telkom transiting Neotel's Telecommunication System to a foreign destination

Neotel POP alpha code	Telkom POI alpha code	Number Of POILs	Signalling System	Contracted Service Level For POILs	RFS Date
NST	JB	2	SS7	Platinum	28 th February 2007
NST	JS	2	SS7	Platinum	28 th February 2007

- 2.3. For signaling purposes

Neotel POP alpha code	Telkom POI alpha code	Number Of POILs	Signalling System	Contracted Service Level For POILs	RFS Date
NEC	JNZ	1	SS7	Platinum	28 th February 2007
NEC	PRZ	1	SS7	Platinum	28 th February 2007
NEJ	JNZ	1	SS7	Platinum	28 th February 2007
NEJ	PRZ	1	SS7	Platinum	28 th February 2007
NEJ	JBZ	1	SS7	Platinum	28 th February 2007
NEJ	JSZ	1	SS7	Platinum	28 th February 2007

TERMINATION RATES

CONTENTS

1. GENERAL
2. TELKOM TERMINATION RATES FOR NATIONAL AND INTERNATIONAL CALLS
3. NEOTEL TERMINATION RATES FOR NATIONAL AND INTERNATIONAL CALLS

TERMINATION RATES

1. GENERAL

This Appendix sets out the Termination Rates payable by the Parties to one another.

2. TELKOM TERMINATION RATES FOR NATIONAL AND INTERNATIONAL CALLS

2.1. WBZ rates as contemplated in 6.2.1 of the main Agreement

Rate Group	Time Period	Termination rates
Peak	07:00 to 20:00 Monday to Friday	R0.23 per minute
Off-Peak	All other hours	R0.12 per minute

2.2. BBZ rates as contemplated in 6.2.2 of the main Agreement

Rate Group	Time Period	Termination rates
Peak	07:00 to 20:00 Monday to Friday	R0.33 per minute
Off-Peak	All other hours	R0.19 per minute

3. NEOTEL TERMINATION RATES FOR NATIONAL AND INTERNATIONAL CALLS

3.1. WBZ rates as contemplated in 6.2.1 of the main Agreement

Rate Group	Time Period	Termination rates
All Day	All hours	R0.20 per minute

3.2. BBZ rates as contemplated in 6.2.2 of the main Agreement

Rate Group	Time Period	Termination rates
All Day	All hours	R0.29 per minute

**SPECIFICATIONS AND PROCEDURES
FOR POINTS OF INTERCONNECTION**

CONTENTS

1. INTRODUCTION
2. ABBREVIATIONS
3. TECHNICAL SPECIFICATIONS
4. PROVISIONING PROCEDURE
5. GRADE AND QUALITY OF SERVICE
6. ROUTING PRINCIPLES
7. NUMBERING

SPECIFICATIONS AND PROCEDURES FOR POINTS OF INTERCONNECTION

1. INTRODUCTION

This Appendix addresses the specifications and procedures for POIs.

2. ABBREVIATIONS

2.1. In this Appendix the following expressions bear the meanings assigned to them below and cognate expressions bear corresponding meanings –

- 2.1.1. “CRC4” means Cyclic Redundancy Check 4;
- 2.1.2. “DPC” means Destination Point Codes;
- 2.1.3. “INAT” means International Network Indicator;
- 2.1.4. “ISDN” means Integrated Services Digital Network;
- 2.1.5. “ISUP” means ISDN User Part;
- 2.1.6. “MSB” means Most Significant Bit;
- 2.1.7. “NAT” means National Network Indicator;
- 2.1.8. “NI” means Network Indicator;
- 2.1.9. “OPC” means Originating Point Code;
- 2.1.10. “PAD” means Packet Assembler/Disassembler;
- 2.1.11. “PDH” means Plesiochronous Digital Hierarchy;
- 2.1.12. “PRC” means Primary Reference Clock;
- 2.1.13. “SCCP” means Signalling Connection Control Point;
- 2.1.14. “SIO” means Service Information Octet;
- 2.1.15. “SNM” means Signalling Network Management ;
- 2.1.16. “SNT” means Signalling Network Testing;
- 2.1.17. “SPC” means Signalling Point Code;
- 2.1.18. “SS7” means Signalling System Number 7;
- 2.1.19. “SSF” means Sub-Service Field;
- 2.1.20. “SSN” means Subsystem Number;

- 2.1.21. “STP” means Signalling Transfer Point;
- 2.1.22. “TGN” means Trunk Group Name ;
- 2.1.23. “UTC” means Universal Time Clock.
- 2.2. Any expression not defined herein shall bear the meaning assigned to it in the main Agreement and cognate expressions shall bear corresponding meanings as in the main Agreement.

3. TECHNICAL SPECIFICATIONS

3.1. General

The Recommendations by the ITU-T or as adapted in Telkom Specification Number 7 chapter 12 for interfacing between equipment types, chapter 20 and chapter 37 for SS7, provide the framework for adherence to the standards contained herein. The Parties shall conform wherever practicable to the ITU-T Recommendations and the Telkom Specification Number 7 as amended and revised from time to time. The present form of reference will be the ITU-T Recommendations as published in the ITU-T White Book.

Notwithstanding the above Recommendations for Calls that are originated/carried in one Telecommunication System and terminated/further carried in another, the originating Telecommunication System will be entitled to block backward signals that modify the originating tariff structure. Such backward signals will be discarded and the Call will be force released.

3.2. Signalling

Chapter 5 of ITU-T Recommendation G.732 applies.

3.2.1. Signalling protocol

The signalling protocol between the Parties' Telecommunication Systems shall be SS7 ISUP as defined in the ITU-T White Book Recommendations, clarified, modified and completed as per Telkom Specification Number 7 chapter 20.

3.2.2. General SS7 principles

The principle of minimum visibility in respect of the DPCs shall apply between the Parties.

The SS7 interconnection network shall be implemented with quasi-associated mode of signalling with a pair of STPs serving as signalling gateways to and from each Party's Telecommunication System. These gateways shall serve ISUP traffic (ISUP v.97) between the Parties and other administrations.

CRC4 will only be used end-to-end over links after mutual agreement between the Parties (switched off by default).

3.2.3. Wander and jitter

Maximum jitter at output ports immediately preceding digital switching as per ITU-T Recommendation G.823 (2003) paragraph 2 shall apply.

Jitter and wander tolerance at input ports will be as per ITU-T Recommendation G.823 (2003) for 2 Mbit/s links on the PDH network and for links provided on copper cables with regenerators. It should be noted that the ports should be able to tolerate a frequency offset greater than 50ppm.

3.2.4. Time slot zero

Chapter 2 of ITU-T Recommendation G.732 applies. However, the Party providing a POIL requires access to any one of the spare five spare bits in the non-frame alignment word as control signals for performance monitoring and alarm collection equipment. It should be noted that the monitoring equipment of the Party providing the POIL will insert CRC4 co-efficient into the appropriate bits if not provided by the terminal multiplexers. CRC4 is transmitted transparently in accordance with ITU-T Recommendation G.706. To allow these facilities a frame structure complying with ITU-T Recommendation G.704 is required and the use of an unframed 2 Mbit/s link will not be acceptable as it will prevent the previously mentioned monitoring.

3.2.5. Fault conditions and consequent actions

The provisions of ITU-T Recommendations G.732 and Q.501 shall be implemented by the Parties.

3.2.6. Channel time slot encoding

3.2.6.1. Channel time slots

The 64 Kbit/s channel time slots comprising the 2048 Kbit/s stream shall carry "A" law encoded information as defined in ITU-T Recommendation G.711.

3.2.6.2. Idle channel bit pattern

The idle channel bit pattern in both directions shall be 01010100 (MSB at left hand end) in accordance with paragraph 2.4.6 of ITU-T Recommendation Q.503 when the interface is between digital exchanges.

3.3. Synchronisation

The synchronisation between the Parties' Telecommunication Systems shall be operated in pseudo-synchronous mode. In this mode each Party is responsible for its own synchronisation and any Telecommunication System interfacing shall be at the tributary level between the boundary network elements.

The synchronisation of Neotel's POPs shall be achieved by Neotel providing its own external PRC in accordance with ITU-T Recommendation G.811. Telkom shall be the primary synchronisation source for all POILs.

Telkom shall operate a synchronised Telecommunication System in accordance with ITU-T recommendation G.803.

Telkom's Telecommunication System shall be synchronised to a PRC, as specified in the ITU-T Recommendation G.811 (09/97) for quality and UTC traceability. In the event of a Telecommunication System losing traceability to the PRC the Telecommunication System in question shall be synchronised to a clock equal to or better than the quality recommended in ITU-T Recommendation G.812 (06/98) type 1.

Telkom shall supply synchronisation to Neotel under the following conditions:

- i. The synchronisation clock shall have a quality not lower than and shall be traceable to a PRC according to the synchronisation network reference chain recommended in ITU-T Recommendation G.803 (06/97) paragraph 8.2.4.
- ii. The interface characteristic of the synchronisation clock shall be in accordance with ITU-T Recommendation G.703 for 2 MHz signals with a 120 ohm balanced termination.
- iii. Telkom shall guarantee the traceability of the synchronisation clock supplied.
- iv. Telkom shall not guarantee the synchronisation clock quality itself, and shall not be liable for loss, damage or any incident in Neotel's Telecommunication System due to any incident and/or the degradation of the synchronisation clock supplied by Telkom.
- v. Only one additional synchronisation output shall be provided at each POI between DPSUs and Neotel's POPs.
- vi. The distribution of the synchronisation clock beyond the POI shall rest with Neotel.
- vii. The two E1 links, in which SS7 is to be provided to the Neotel's POPs, may be used for synchronisation purposes. As these tributaries are guaranteed to perform within ITU-T Recommendation G.823 (2003) limits, there is no guarantee that these tributaries will be acceptable as synchronisation clock references.
- viii. Telkom shall not be responsible for the continuous monitoring of the performance of the synchronisation clock supplied to Neotel.
- ix. Telkom shall not provide any mechanism for the early detection of wander and jitter of the synchronisation clock supplied to Neotel.

All E1 links in which SS7 will be provided, shall also be used for synchronisation purposes since the E1s will be appropriately marked.

3.4. SS7 signalling links

Signalling link pairs in a combined link set will be operated in a load share mode, with no single signalling link operated at greater than 30% (thirty percent) of its theoretical message capacity under normal conditions and 60% (sixty percent) under overload conditions.

A 64 Kbit/s signalling link will be engineered to offer, in each direction, a normal traffic load of up to 48 ISUP messages plus 8 SCCP messages per second for trunk and roaming signalling and an overload traffic load of up to 96 ISUP messages and 16 SCCP messages, assuming that an average message length of 25 octets per ISUP message and 150 octets per SCCP message shall apply.

It shall be possible to assign signalling links to any timeslot except 0 on any E1 system between the Parties.

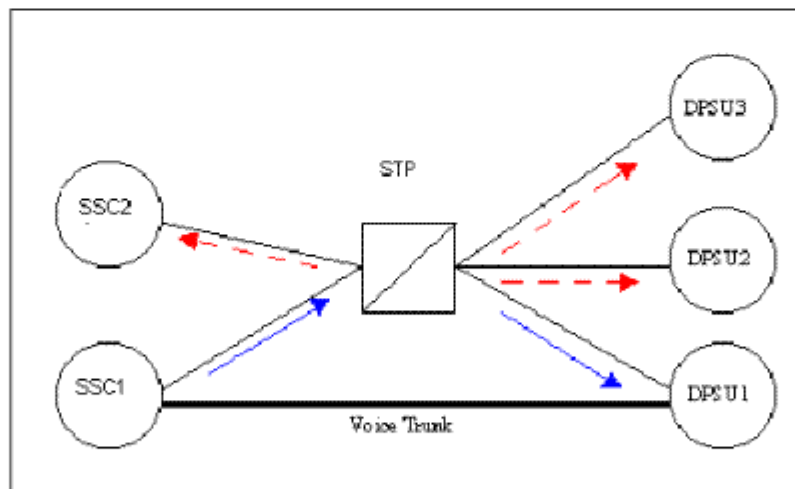
It will be up to the discretion of either Party, as the case may be, as to whether en block or overlap signalling is used.

3.5. Screening (National)

The screening that shall be implemented in the Telkom National Gateway STP pair shall be according to the rules set out in 3.5.1 to 3.5.6 below which cover the normal voice traffic (ISUP) that travels between the Parties' Telecommunication Systems and 3.5.7 to 3.5.9 below which cover the roaming traffic (SCCP).

- 3.5.1. If a Neotel POP (SSC1) has voice trunks connecting to a POI (DPSU1), ISUP signalling traffic shall be allowed between SSC1 and DPSU1.

In the figure below, signalling via the Telkom STP will therefore be allowed between SSC1 and DPSU1 but not between SSC1 and any of SSC2, DPSU2 or DPSU3. (The voice trunk group between SSC1 and DPSU1 is the only trunk group present.)



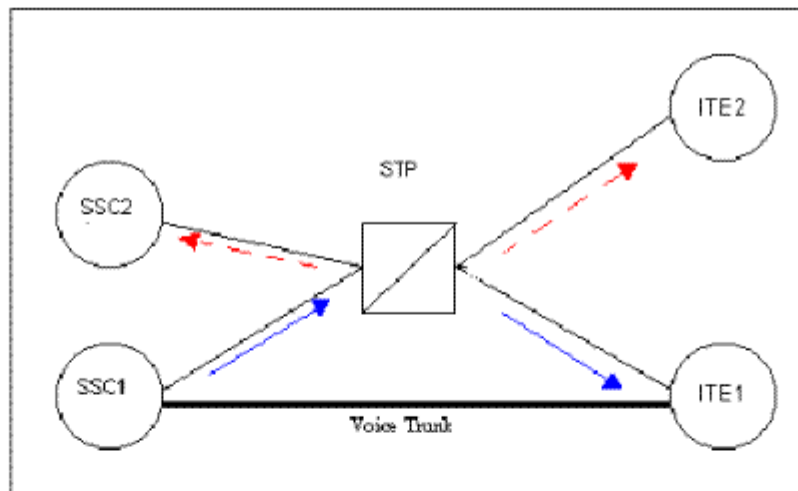
- 3.5.2. SNM shall be allowed between the Neotel POP and the Telkom National Gateway pair in respect of the ISUP connected to the POIs (DPSUs).
- 3.5.3. SNM shall be allowed between the Telkom National Gateway pair and the Neotel POP in respect of the ISUP connected to the Neotel POPs.
- 3.5.4. SNM on a link basis, in respect of the Telkom National Gateway STP pair and the Neotel POP or the Neotel Gateway STP pair, shall be allowed.
- 3.5.5. SNT shall be allowed between the Neotel POP or the Neotel Gateway STP pair and the Telkom National Gateway STP pair.

- 3.5.6. No other traffic except for the above mentioned shall be passed.
- 3.5.7. Only SCCP traffic with SSN equal to 6, 7 or 8 shall be allowed.
- 3.5.8. SCCP traffic with an OPC of the Neotel Gateway STP pair and a DPC of the Telkom National Gateway STP pair (NI=3), and adhering to 3.5.7 above, shall be allowed.
- 3.5.9. SCCP traffic with an OPC of the Telkom National Gateway STP pair (NI=3) and a DPC of the Neotel Gateway STP pair, adhering to point 3.5.7 above shall be allowed.
- 3.6. Screening (International)

The screening that shall be implemented in the Telkom International Gateway STP pair shall be according to the rules set out in 3.6.1 to 3.6.6 below which cover the normal voice traffic (ISUP) that travels between the Parties' Telecommunication Systems and 3.6.7 to 3.6.9 below which cover the roaming traffic (SCCP).

- 3.6.1. If a Neotel POP (SSC1) has voice trunks connected to a POI (ITE1), ISUP signalling traffic shall be allowed between SSC1 and ITE1.

In the figure below, signalling via the Telkom STP will therefore be allowed between SSC1 and ITE1 but not between SSC1 and any of SSC2 or ITE2. (The voice trunk group between SSC1 and ITE1 is the only trunk group present.)



- 3.6.2. SNM shall be allowed between the Neotel POP and the Telkom International Gateway pair in respect of the ISUP connected to the POIs (ITEs).
- 3.6.3. SNM shall be allowed between the Telkom International Gateway STP pair and the Neotel POP in respect of the ISUP connected to the Neotel POPs.
- 3.6.4. SNM on a link basis, in respect of the Telkom International Gateway STP pair and the Neotel POP or the Neotel Gateway STP pair, shall be allowed.
- 3.6.5. SNT shall be allowed between the Neotel POP or the Neotel Gateway STP pair and the Telkom International Gateway STP pair.

- 3.6.6. No other traffic except for the above mentioned shall be passed.
- 3.6.7. Only SCCP traffic with SSN equal to 6, 7 or 8 shall be allowed.
- 3.6.8. SCCP traffic with an OPC of the Neotel Gateway STP pair and a DPC of the Telkom International Gateway STP pair (NI=0), and adhering to 3.6.7 above, shall be allowed.
- 3.6.9. SCCP traffic with an OPC of the Telkom International Gateway STP pair (NI=0) and a DPC of the Neotel Gateway STP pair, adhering to point 3.6.7 above shall be allowed.

4. PROVISIONING PROCEDURE

4.1. Provisioning of POILs

The provisioning procedures for POILs are set out in Part II of the main Agreement.

4.2. TGN - naming convention

Each Party shall use its own naming convention rules to allocate names to the POI or POP trunk groups. Each Party shall allocate a unique three letter alphabetic code to its Switches or POPs for identification and registration purposes. These codes should differ from existing codes used by either Party.

4.3. SPC allocation (national and international)

The Parties shall apply to the Authority for the allocation of an SPC.

5. GRADE AND QUALITY OF SERVICE

5.1. Grade and quality of service

To ensure system performance compatibility, the grade of service of both Parties' Telecommunication Systems, as seen from the interface between the two Telecommunication Systems, shall be planned so as to give an average probability (over the working week) that not more than 3% (three percent) of Call attempts encounter congestion.

Routes carrying traffic between the Parties' Telecommunication Systems in one or both directions, shall be designed to operate at a busy hour grade of service of 0.002, subject to the route dimension giving a grade of service of 0.02 at 10% traffic overload and a grade of service of 0.05 at 20% overload. Only under extreme failure conditions should the Telecommunication Systems not process all of the Calls offered. Sequential circuit selection mechanisms shall be employed on bothway routes. The direction of the selection process at either end of the link shall be determined by mutual agreement.

The table below shows the agreed apportionment of overall grade and quality of service objectives between the Parties' Telecommunication Systems. The parameters in the

table are intended to be the objectives for circumstances where all circuits forming a traffic route between the two Telecommunication Systems are available to carry traffic.

Performance Parameter	Direction	Originating Telecommunication System (info only)	Interconnection Route (agreed objective)	Terminating Telecommunication System (info only)
Mean busy hour blocking probability	Telkom/ Neotel	0.002	0.002	0.002
Probability of call failure due to Telecommunication System malfunction excluding premature release	Telkom/ Neotel	0.002		0.002
	Neotel /Telkom	0.002		0.002
Probability of call failure due to premature release caused by Telecommunication System equipment malfunction	Telkom/ Neotel	0.002		0.002
	Neotel /Telkom	0.002		0.002

Note. Anything requiring terminal equipment approval for either Telecommunication System is excluded.

6. ROUTING PRINCIPLES

6.1. National calls

6.1.1. Routing from Telkom to Neotel

Calls from within the Telkom Telecommunication System shall be routed from POIs (DPSUs) to the appropriate POPs in accordance with Neotel's routing tables at not less than the grade of service agreed to in 5 above. These routing tables shall define routing for specified Neotel dial codes. (NAT1, NI=3 for ISUP traffic)

6.1.2. Routing from Neotel to Telkom

Calls from within the Neotel Telecommunication System shall be routed from POPs to the appropriate POI (DPSU) in accordance with Telkom's routing tables at not less than the grade of service agreed to in 5 above. These routing tables shall define routing for specified Telkom dial codes. (NAT1, NI=3 for ISUP traffic)

6.2. International calls

6.2.1. Routing from Telkom to Neotel

6.2.1.1. Calls originating on or conveyed on Telkom's Telecommunication System, handed to Neotel and terminating on a Telecommunication System operated outside the Territory, shall be routed via the POIs (ITEs) to the appropriate POPs at not less than the grade of service agreed to in 5 above. (INAT0, NI=0 for ISUP traffic)

6.2.1.2. Calls originating on a Telecommunication System operated outside the Territory, conveyed on Telkom's Telecommunication System, handed to Neotel for

termination on or conveyance on Neotel's Telecommunication System, shall be routed via the POIs (DPSUs) to the appropriate POP in accordance with Neotel's routing tables at not less than the grade of service agreed to in 5 above. These routing tables shall define routing for specified Neotel dial codes. (NAT1, NI=3 for ISUP traffic)

6.2.2. Routing from the Neotel to Telkom

6.2.2.1. Calls originating on or conveyed on Neotel's Telecommunication System, handed to Telkom and terminating on a Telecommunication System operated outside the Territory, shall be routed via the POPs to the appropriate POIs (ITEs) at not less than the grade of service agreed to in 5 above. (INAT0, NI=0 for ISUP traffic)

6.2.2.2. Calls originating on a Telecommunication System operated outside the Territory, conveyed on Neotel's Telecommunication System, handed to Telkom for termination on or conveyance on Telkom's Telecommunication System, shall be routed via the POPs to the appropriate POIs (DPSUs) in accordance with Telkom's routing tables at not less than the grade of service agreed to in 5 above. These routing tables shall define routing for specified Telkom dial codes. (NAT1, NI=3 for ISUP traffic)

6.3. Route diversity and security arrangements for Interconnection

For reliability, POILs shall be provisioned over physically diverse routes and/or equipment where such exists (platinum service level). Any deviation from this rule shall be negotiated in good faith and agreed to in writing between the Parties.

Interconnection between the Neotel POPs and Telkom's POIs (DPSUs/ITEs) shall be dimensioned on a 50-50 load shared basis. Any deviation from this rule shall be negotiated in good faith and agreed to in writing between the Parties.

6.4. Route diversity and security arrangements for signalling

For reliability, signalling links shall be provisioned over physically diverse routes and/or equipment where such exists. Any deviation from this rule shall be negotiated in good faith and agreed to in writing between the Parties.

The minimum number of links per link set shall be 2 (two). Any number of links per link set, however, exceeding 2 (two) shall be negotiated in good faith and agreed to in writing between the Parties. All circuit conditioning equipment such as PADS and echo cancellers shall be removed from the signalling links.

7. **NUMBERING**

7.1. National Calls

The Parties shall send the called Number in the format:

0 NN ABC XXXX

Where NN is the national destination code (e.g. 12 = Pretoria), ABC is the exchange area code and XXXX is the number allocation range.

7.2. International Calls

The Parties shall send the called Number in the format:

IDD CC NN SN

Where IDD is the international direct dial access code, CC is the country code, NN the national destination code and SN is the subscriber's number in accordance with ITU-T Recommendations E.164.

7.3. SS7 SPC numbering

7.3.1. General

The numbering of the signalling points for the Telecommunication Systems are inter-related by the SPC and the NI.

For purposes of convenience and security it is recommended that each Telecommunication System have an independent SPC numbering scheme and one single SPC numbering scheme where the interconnecting signalling points are defined.

This will have the effect that each Telecommunication System is responsible for the internal SPC numbering scheme of its Telecommunication System without being subjected to demands by other Telecommunications Systems.

7.3.2. Identification of Telecommunication Systems

7.3.2.1. SSF or NI

The SSF or NI is part of the SIO.

The NI's are defined in ITU-T as follows:

bits D and C		NI		
0	0	International Network	-	INAT0
0	1	Spare	-	INAT1
1	0	National Network	-	NAT0
1	1	Reserved for National use	-	NAT1

where bits A and B are not presently used, i.e. spare.

7.3.2.2. INAT0 (NI = 0)

INAT0, for the international network, will be used for signalling between Neotel POPs and Telkom POIs, i.e. Neotel to Telkom, Telkom to Neotel and international traffic as agreed by both Telkom and Neotel.

7.3.2.3. NAT0 (NI = 2)

NAT0, for the national network, will be used for signalling between switching units internal to the Telecommunications Systems themselves, i.e. Neotel to Neotel and Telkom to Telkom.

7.3.2.4. NAT1(NI = 3)

NAT1, which is reserved for national use, will be used for signalling between signalling units of different operators, i.e. Neotel to Telkom.

7.3.2.5. Effect on Switches/POPs

Interconnecting Switches/POPs will have two OPC/DPC's, i.e. one for a Party's own Telecommunication System (NAT0) and one for Interconnection (NAT1).

TECHNICAL SPECIFICATION FOR POILs

CONTENTS

1. INTRODUCTION
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3. TECHNICAL SPECIFICATIONS
4. PROVISIONING PROCEDURES
5. OPERATION AND MAINTENANCE PROCEDURES
6. TESTING AND COMMISSIONING PROCEDURES

TECHNICAL SPECIFICATION FOR POILs

1. INTRODUCTION

This Appendix addresses the technical specification for POILs.

2. ABBREVIATIONS

2.1. In this Appendix the following expressions bear the meanings assigned to them below and cognate expressions bear corresponding meanings –

- 2.1.1. “BBE” means Background Block Error;
- 2.1.2. “BBER” means Background Block Error Ratio;
- 2.1.3. “BIS” means Bringing into Service;
- 2.1.4. “BISL” means Bringing into Service Limits;
- 2.1.5. “BISO” means Bringing into Service Objectives;
- 2.1.6. “CRC4” means Cyclic Redundancy Check 4;
- 2.1.7. “ES” means Errored Second;
- 2.1.8. “ESR” means Errored Second Ratio ;
- 2.1.9. “HRDL” means Hypothetical Recommended Digital Link;
- 2.1.10. “ISD” means Interconnection Service Desk;
- 2.1.11. “MSB” means Most Significant Bit;
- 2.1.12. “PDH” means Plesiochronous Digital Hierarchy;
- 2.1.13. “PRBS” means Pseudo-Random Pattern Sequence;
- 2.1.14. “RPO” means Reference Performance Objective ;
- 2.1.15. “SDH” means Synchronous Digital Hierarchy;
- 2.1.16. “SES ” means Severely Errored Second;
- 2.1.17. “SESR” means Severely Errored Second Ratio ;
- 2.1.18. “SS7” means Signalling System Number 7.

- 2.2. Any expression not defined herein shall bear the meaning assigned to it in the main Agreement and cognate expressions shall bear corresponding meanings as in the main Agreement.

3. **TECHNICAL SPECIFICATIONS**

3.1. General

The Recommendations made by the ITU-T, or as adapted in Telkom Specification Number 7 chapter 37 for SS7, provide the framework for adherence to the standards contained herein. The Parties shall conform wherever practicable with the ITU-T Recommendations and the Telkom Specification Number 7 as amended and revised from time to time. The present form of reference will be the ITU-T Recommendations as published in the ITU-T White Book.

3.2. Safety (dangerous voltages)

For equipment which uses or generates excessive voltages, a barrier shall be provided to protect the interface from those voltages.

3.3. Electrical interface

3.3.1. Input and output

The electrical interface shall conform to ITU-T Recommendation G.703 for twisted pairs at 2048 Kbit/s. The input impedance of 120 ohm balanced is required. The output impedance is approximately 120 ohms as specified in ITU-T Recommendation G.703. This is necessary to meet the required pulse shape masks.

3.3.2. Attenuation

The attenuation of the interconnecting cable (including a digital distribution frame or interconnecting equipment) shall not exceed 6dB at 1024 kHz.

3.3.3. Interference

Both input ports shall tolerate, without error, interference from a non-synchronous standard test signal (ITU-T Recommendation O.151) at a level 18dB lower than the wanted signal.

3.3.4. Multiplex characteristics

The multiplex structure shall be in accordance with ITU-T Recommendation G.732, and ITU-T Recommendations G.704, G.705 and Q.501 to Q.517 for operations involving digital exchanges.

3.4. Signalling

Chapter 5 of ITU-T Recommendation G.732 applies.

3.4.1. Wander and jitter

3.4.1.1. Maximum jitter at output ports immediately preceding digital switching as per ITU-T Recommendation G.823 (2003) paragraph 2 shall apply.

3.4.1.2. Jitter and wander tolerance at input ports will be as per ITU-T Recommendation G.823 (2003) for 2 Mbit/s links on the PDH network and for links provided on copper cables with regenerators. It should be noted that the ports should be able to tolerate a frequency offset of + or - 50ppm.

3.4.2. Time slot zero

Chapter 2 of ITU-T Recommendation G.732 applies. However, the Party providing a POIL requires access to any one of the five spare bits in the non-frame alignment word as control signals for performance monitoring equipment and alarm collection equipment. It should be noted that the monitoring equipment of the Party providing a POIL will insert CRC4 co-efficient into the appropriate bits if not provided by the terminal multiplexers. CRC4 is transmitted transparently in accordance with ITU-T Recommendation G.706. To allow these facilities a frame structure complying with ITU-T Recommendation G.704 is required and the use of an unframed 2 Mbit/s link will not be acceptable as it will prevent the previously mentioned monitoring.

3.4.3. Fault conditions and consequent actions

The provisions of ITU-T Recommendations G.732 and Q.501 to Q.517 shall be implemented by the Parties.

3.4.4. Channel time slot encoding

3.4.4.1. Channel time slots

The 64 Kbit/s channel time slots comprising the 2048 Kbit/s stream shall carry "A" law encoded information as defined in ITU-T Recommendation G.711.

3.4.4.2. Idle channel bit pattern

The idle channel bit pattern in both directions shall be 01010100 (MSB at left hand end) in accordance with paragraph 2.4.6 of ITU-T Recommendation Q.503 when the interface is between digital exchanges.

4. PROVISIONING PROCEDURES

The provisioning procedures for POILs are set out in Part II of the main Agreement.

5. OPERATION AND MAINTENANCE PROCEDURES

5.1. Reporting of Faults

Service problems related to POILs shall be reported by either Party to the other Party's ISD as set out in Appendix 7.

5.2. Operational standards for POILs

The Parties shall endeavour to adhere to the standards for the operation of transmission links as specified by ITU-T Recommendation G.821 or subsequent recommendations that may become relevant provided they are mutually agreed upon in writing between the Parties acting in good faith (i.e. M.2100 series of ITU-T Recommendations).

Adherence to these standards is intended to ensure the satisfactory quality of Signals passing between the elements of the Parties' Telecommunication Systems.

6. TESTING AND COMMISSIONING PROCEDURES

6.1. Introduction

This is a pre-service test program to ensure that the Parties agree on the acceptable performance of POILs before commissioning. The aim of this program is to determine the pre-service test points, types of tests to be performed and the duration of the tests.

6.2. Digital performance parameters

The analysis outlined below has been based on ITU-T Recommendations G.826 and M.2100.

6.2.1. Brief outline of the analysis used

According to ITU-T Recommendation G.826, the hypothetical reference circuit given in ITU-T Recommendation G.801 applies. A fixed block allowance of 17.5% (seventeen point five percent) of the total international and national end-to-end objective is allocated to the national portion plus an additional 1% (one percent) is allowed for each 500 (five hundred) km integer.

The national path allocation is from a path-end-point to the international gateway. The 17% (seventeen percent) is to be allocated to the PDH network and the 1% (one percent) / 500 (five hundred) km to the SDH network. The SDH allocation will be further subdivided into an allocation of 0.2% (point two percent) for each 100 (one hundred) km section or part thereof up to 500 (five hundred) km and thereon integers of 250 (two hundred and fifty) km up to a maximum of 2750 (two thousand seven hundred and fifty) km.

6.2.2. The national allocation apportioned for SDH

For SDH circuits, an allowance of 0.2% (point two percent) for distance of up to 100 (one hundred) km is allocated. Above 100 (one hundred) km, an additional allowance of 0.2% (point two percent) is allowed for each 100 (one hundred) km integer. For sections of less than 100 (one hundred) km, an allowance of 0.2% (point two percent) shall be used. Above 500 (five hundred) km, an allowance of 0.5% (point five percent) is allocated for each 500 (five hundred) km integer. The actual route distance between terminals shall be calculated if known.

Hierarchy	PDH	SDH
Rate (Mbit/s)	2.048	2.24
Path Type	-	VC-12
ESR	0.04	0.04
SESR	0.002	0.002
BBER	0.0003	0.0002
Error Performance for sections up to 250 km (0.5%) 24 hr measuring period		
ES Count	17	17
SESR Count	1	1
BBE Count	130	172

6.2.3. Out-of-service measurements

All measurements shall be performed out of service using a measuring instrument with a PRBS 2¹⁵ -1 for 2 Mbit/s data rates. CRC-4 measurements are only to be used for in service measurements and not for out of service acceptance testing. Testing will be performed initially over a 15 (fifteen) minute period and, if successful, a 24 (twenty four) hour test period follows.

6.2.4. Initial 15 (fifteen) minute test and 24 (twenty four) hour test

Initial measurements shall be performed over a 15 (fifteen) minute period. During this period, there should be no error or unavailable time. If an event occurs, this step may be repeated up to two more times. If, during the third test, an event occurs, the fault must be localised and corrected and the above step repeated. If the 15 (fifteen) minute test is successful, a 24 (twenty four) hour test shall be conducted. This time shall include work periods to ensure detection of any external disturbances. During the time period, there should be no unavailable time. At the end of the test period, the results shall be compared to the BIS limits S1 and S2. If the ES and SES are:

- All less than or equal to their respective S1 values, the system, link or path is accepted for service.

- If one or more of the error parameters is greater than or equal to their respective S2 values, the circuit is rejected and the cause of the fault shall be localised and rectified.
- If either one or all error parameters fall in between the S1 and S2 limits, the circuit can be re-tested for a further 24 (twenty four) hour period. If still > S1 and < S2, the circuit shall be rejected and the cause of failure located and rectified.
- If an unavailability event occurs during the 24 (twenty four) hour test period or the prescribed error limits are exceeded, testing shall be suspended and the fault localised and cleared. If the unavailability is due to fading on a microwave link, this shall be substantiated as the cause and quantified against the predicted calculations.

6.2.5. Path measurements

An end-to-end test where all digital sections are linked together shall be conducted. The limits are the summing of the allocations in percentage for all Path Sections in the path. The BIS, objectives are then derived from the overall HRDL. The testing procedures for end-to-end paths are as above for a 15 (fifteen) minute time period and then a 24 (twenty four) hour time period.

6.2.6. BISL

Calculations are based upon the formulae given in the ITU-T Recommendation M.2100 and the limits in ITU-T Recommendation G.826. The RPO is the minimum limit objective for the maintenance of the path while in service and the BISO is the minimum limit for acceptance testing of the link, section or path. To allow for a margin of safety, the BISO is fixed at two times better than the RPO.

The RPO for ES and SES = $A \times 86400 \times PO$,

where	A	= Path Allocation
	86400	= Number of seconds in 24 (twenty four) hours
	1440	= Number of minutes in 24 (twenty four) hours
	PO	= Performance Objectives
	BISO	= $RPO/2$
	S1	= $BISO - 2/(BISO)$
	S2	= $BISO + 2/(BISO)$

Note: No additional allowance for adverse propagation conditions has been included for microwave links as the measured time period is relatively short.

The 24 (twenty four) hour testing period for microwave systems or links is only applicable on existing routes where the propagation behaviour is known. On new routes, links shall be tested for a period of 72 (seventy two) hours. This testing period shall also apply to all new equipment types.

The tables below list the performance limits for the various bit rates:

Performance Objective for 24 Hour Period - Bit Rate 2240 Kbit/s					
Path Distance (km)	Path Allocation (%)	Errored Second Count			
		RPO	BIS	S1	S2
100	0.2	7	3	0	6
200	0.4	14	7	2	12
300	0.6	21	10	4	16
400	0.8	28	14	7	21
500	1.0	35	17	9	25
750	1.5	52	26	16	36
1000	2.0	69	35	23	47
1250	2.5	86	43	30	56
1500	3.0	104	52	38	66
1750	3.5	121	60	45	75
2000	4.0	138	69	52	86
2250	4.5	156	78	60	96
2500	5.0	173	86	67	105
2750	5.5	190	95	76	114
Path Distance (km)	Path Allocation (%)	Severely Errored Second Count			
		RPO	BIS	S1	S2
100	0.2	0	0	0	0
200	0.4	1	0	0	0
300	0.6	1	1	0	3
400	0.8	1	1	0	3
500	1.0	2	1	0	3
750	1.5	3	1	0	3
1000	2.0	3	2	0	5
1250	2.5	4	2	0	5
1500	3.0	5	3	0	6
1750	3.5	6	3	0	6
2000	4.0	7	3	0	6
2250	4.5	8	4	0	8
2500	5.0	9	4	0	8
2750	5.5	10	5	0	9
Path Distance (km)	Path Allocation (%)	Background Block Error Count			
		RPO	BIS	S1	S2
100	0.2	69	35	23	47
200	0.4	138	69	52	86
300	0.6	207	104	84	124
400	0.8	276	138	115	161
500	1.0	346	173	147	199
750	1.5	518	259	227	291
1000	2.0	691	346	309	383
1250	2.5	864	432	390	474
1500	3.0	1037	518	472	564
1750	3.5	1210	605	556	654
2000	4.0	1382	691	638	744
2250	4.5	1555	778	722	834
2500	5.0	1728	864	805	923
2750	5.5	1901	950	888	1012

Performance Objective for 24 Hour Period - Bit Rate 2048 Kbit/s					
Path Distance (km)	Path Allocation (%)	Errored Second Count			
		RPO	BIS	S1	S2
100	0.2	7	3	0	6
200	0.4	14	7	2	12
300	0.6	21	10	4	16
400	0.8	28	14	7	21
500	1.0	35	17	9	25
750	1.5	52	26	16	36
1000	2.0	69	35	23	47
1250	2.5	86	43	30	56
1500	3.0	104	52	38	66
1750	3.5	121	60	45	75
2000	4.0	138	69	52	86
2250	4.5	156	78	60	96
2500	5.0	173	86	67	105
2750	5.5	190	95	76	114
Path Distance (km)	Path Allocation (%)	Severely Errored Second Count			
		RPO	BIS	S1	S2
100	0.2	0	0	0	0
200	0.4	1	0	0	0
300	0.6	1	1	0	3
400	0.8	1	1	0	3
500	1.0	2	1	0	3
750	1.5	3	1	0	3
1000	2.0	3	2	0	5
1250	2.5	4	2	0	5
1500	3.0	5	3	0	6
1750	3.5	6	3	0	6
2000	4.0	7	3	0	6
2250	4.5	8	4	0	8
2500	5.0	9	4	0	8
2750	5.5	10	5	0	9
Path Distance (km)	Path Allocation (%)	Background Block Error Count			
		RPO	BIS	S1	S2
100	0.2	52	26	16	36
200	0.4	104	52	38	66
300	0.6	156	78	60	96
400	0.8	207	104	84	124
500	1.0	259	130	107	153
750	1.5	389	194	166	222
1000	2.0	518	259	227	291
1250	2.5	648	324	288	360
1500	3.0	778	389	350	428
1750	3.5	907	454	411	497
2000	4.0	1037	518	472	564
2250	4.5	1166	583	535	631
2500	5.0	1296	648	597	699
2750	5.5	1426	713	660	766

6.2.7 15 (fifteen) minute testing of 2 Mbit/s ports

All 2 Mbit/s ports shall be tested on an individual basis, end-to-end, for at least 15 (fifteen) minutes. No more than 1 (one) errored second in the 15 (fifteen) minute testing period is permitted. If more than 1 (one) errored second is detected, then the test shall be repeated for a further 15 (fifteen) minutes. Should this limit still be exceeded hereafter, then an investigation shall be instituted to determine the cause of the errors and the fault rectified.

6.3 Jitter

6.3.1 Jitter parameters shall be measured according to ITU-T Recommendation G.823 (2003), at a bit rate of 2 Mbit/s during type approval of all equipment.

6.3.2 The tests involved are input jitter tolerance (limits are given in Table 2 of ITU-T Recommendation G.823 (2003)), maximum output jitter in the absence of input jitter (limits are given in Table 1 of ITU-T Recommendation G.823 (2003)) and the jitter transfer characteristics.

6.4 Test duration

6.4.1 All 2 Mbit/s digital paths shall be tested end to end. The first 2 Mbit/s tributary on a digital path shall be tested for 24 (twenty four) hours to verify the basic transmission at tributary level. The other tributaries shall then be tested for 15 (fifteen) minutes, to verify continuity and to check performance quickly.

6.4.2 All future installations on the same path shall follow the same test procedures.

6.5 Test procedure 2 Mbit/s (no route diversity)

6.5.1 Pre-service test points shall be the test and patch frame associated with either Party's equipment.

6.5.2 The duration of the tests shall be according to 6.4 performed in a 120 (one hundred and twenty) ohm terminated mode using a pseudo-random sequence according to ITU-T Recommendation Q.151.

6.5.3 Error performance tests shall be carried out as indicated above.

6.5.4 The test parameters shall be according to 6.2.

6.5.5 The duration of the tests shall be as indicated in 6.4.

6.5.6 All test equipment employed shall meet the relevant ITU-T Recommendation Q.151.

6.5.7 Document results

6.6 Test procedure 2 Mbit/s (with route diversity)

6.6.1 Pre-service test points shall be the test and patch frame associated with either Party's equipment.

6.6.2 The duration of tests shall be according to 6.4 performed in a 120 (one hundred and twenty) ohm terminated mode using a pseudo-random sequence according to ITU-T Recommendation Q.151.

6.6.3 Error performance tests shall be carried out as indicated above.

- 6.6.4 The test parameters shall be according to 6.2.
- 6.6.5 The duration of the tests shall be as indicated in 6.4.
- 6.6.6 All test equipment employed shall meet the relevant ITU-T Recommendation Q.151.
- 6.6.7 Upon completion of the test on the normal path, the service shall be force switched to the standby path for the test to be repeated as indicated in 6.6. When the test is completed the service shall be restored to normal working.
- 6.6.8 Document results.

OPERATION AND MAINTENANCE PROCEDURES FOR POILs

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2. DEFINITIONS
3. INTERCONNECTION SERVICE DESK
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5. SERVICE REVIEWS
6. SETTLEMENT OF VARIOUS FEES

OPERATION AND MAINTENANCE PROCEDURES FOR POILs

1. INTRODUCTION

This Appendix addresses the operation and maintenance procedures for POILs.

2. DEFINITIONS

2.1. Fault

A Fault is an incident that will affect the availability of a POIL. A POIL is deemed to be unavailable when there is either no data throughput for a period greater than 10 (ten) seconds or when the error ratio exceeds 10^{-3} for more than 10 (ten) consecutive seconds.

2.2. Normal Business Hours

Means any time between 07:30 to 17:00 on Mondays to Thursdays and 07:30 to 16:30 on Fridays. Official public holidays in the Territory (from 16:30 on a Friday, or 17:00 if the start of the public holiday falls on a day other than a Friday, until 07:30 on the next Business Day) and week-ends (from 16:30 on a Friday, until 07:30 on the next Business Day) shall be excluded.

2.3. Recurring Faults

A Recurring Fault is defined as an instance where 3 (three) Faults are reported on the same POIL within a sliding period of 30 (thirty) days.

3. INTERCONNECTION SERVICE DESK

3.1. Each Party shall each establish at its own cost and expense, an Interconnection Service Desk ("ISD") which shall be staffed on a 24 (twenty four) hour seven days a week basis and be equipped with the necessary infrastructure to facilitate efficient communication in order to manage all aspects relating to the proper functioning of POILs as well as to deal with all Faults relating to POILs.

3.2. Where assistance is required by either Party, this shall be requested through the other Party's ISD.

3.3. A copy of all ISD contact telephone numbers shall be made available to each Party by the other Party and shall be updated as and when changes occur.

3.4. Functions of the ISD shall be as follows:

3.4.1. receive Fault reports from the other Party, either directly or via nominated Fault reporting points;

- 3.4.2. issue a unique reference number to the other Party when a Fault is reported;
- 3.4.3. ensure the co-ordination and localising of Faults up to and including the last point on the other Party's terminating block;
- 3.4.4. control the return to service of POILs after Fault clearance, routine maintenance, etc;
- 3.4.5. be familiar with the re-routing procedures for any POIL under its control;
- 3.4.6. advise the other Party of the progress of Fault clearance where appropriate i.e. in the case of lengthy outages;
- 3.4.7. advise the other Party when the Fault has been rectified;
- 3.4.8. keep accurate records of POIL outages. Records shall include, (in addition to information necessary for availability assessment), but not be limited to:
 - a) name of the Party's representative who reported the Fault;
 - b) unique reference number the Party who reported the Fault;
 - c) the other Party's description of the problem;
 - d) date and time of all incidents/actions related to a Fault;
 - e) priority of the problem;
 - f) end-to-end POIL reference;
 - g) POIL outage time;
 - h) location of the Fault;
 - i) nature of the Fault;
- 3.4.9. supply the other Party with weekly Fault reports specifying the minimum details as required in 3.4.8 above;
- 3.4.10. calculate and provide availability figures for all POILs for each calendar month. The availability figures calculated by the ISD's will be compared weekly and reconciled;
- 3.4.11. analyse weekly, monthly and yearly failure statistics to produce service performance reports in order to establish trends and determine the general quality of service provided. This information will be used to identify problem areas and where appropriate initiate escalation procedures to rectify the problems.

4. FAULT HANDLING AND RECTIFICATION PROCEDURES

4.1. Reporting of Faults (Unplanned outages)

- 4.1.1. All Faults relating to POILs shall be reported by a Party (“the reporting Party”) to the other Party’s ISD (“the repairing Party”) and the repairing Party shall report all Faults to the relevant maintenance sections of that Party according to its internal fault reporting procedures. Where reported Faults are proven by the repairing Party to be in the reporting Party’s Telecommunication System, a Fault location fee of R640.00 (“Fault location fee”) shall be charged by the repairing Party. Where Faults are referred back to the reporting Party by the repairing Party, but proven to be in the repairing Party’s Telecommunication System, a Fault location fee shall be charged by the reporting Party.
- 4.1.2. Prior to reporting and handing over Faults to the repairing Party’s ISD, the reporting Party shall conduct a preliminary investigation into the Fault, which may include a site visit by the reporting Party’s technician. The reporting Party’s Network Controller (“the Network Controller”) on duty at the reporting Party’s Network Management Centre (“NMC”) shall make an assessment of the Fault taking into account the Fault history of the POIL in question and shall then decide whether or not it is necessary to send out a technician to visit the site of the Fault prior to handing the Fault over to the repairing Party.

A site visit shall not be required where:

- a) a Fault involves multiple POILs clearly related to a common failure; or
- b) a POIL has had a recent history of being faulty and was previously proved by the reporting Party to be faulty, but due to it clearing as right when tested (“RWT”) or cleared while localising (“CWL”) could not be conclusively proved as a Fault on either Party’s Telecommunication System; or
- c) the repairing Party would in any event have to visit the site of a Fault to allow the reporting Party access.

Should the repairing Party’s ISD not accept the Network Controller’s assessment as aforesaid, the matter may be escalated to the most senior reporting Party staff member on duty at the NMC, whose decision shall be final. The repairing Party’s ISD shall not directly contact the reporting Party’s technicians to verify whether or not the site of a Fault has been visited by the reporting Party.

4.2. After-hours repair service

- 4.2.1. After-hours Fault reports shall also be handled by the ISD. An after-hours repair fee of R640.00 (“after-hours repair fee”), provided that the reporting Party accepts the charge on each occasion, shall be charged for after-hours repairs except for POILs having a Platinum service level. Only one after-hours repair fee, regardless of the number of the repairing Party’s personnel involved, shall be charged per single Fault reported to the repairing Party’s ISD after hours. The actual time that a Fault is logged at the repairing Party’s ISD shall determine whether or not an after-hours repair fee shall be payable.

The after-hours repair service will be rendered during hours other than Normal Business Hours.

4.2.2. In respect of 4.2.1 above, the following principles shall apply:

4.2.2.1. where a Fault recurs on the same POIL within 14 (fourteen) days, and the Fault recurs on the same element or piece of equipment within that POIL, only one after-hours repair fee shall be payable;

4.2.2.2. where a Fault recurs on the same POIL, but the Fault varies in that different elements or pieces of equipment within that POIL are involved, then an after-hours repair fee shall be payable in respect of each Fault;

4.2.2.3. where the repairing Party is attending to a failure at the time of the reporting Party reporting and handing over a Fault relating to that failure, no after-hours repair fee shall be payable;

4.2.2.4. where the reporting Party reports and hands over a Fault on a POIL passing through any repairing Party site which is manned on a 24 (twenty four) hour basis and any action is taken by the repairing Party (even if such action comprises the testing of the POIL) an after-hours repair fee shall be payable;

4.2.2.5. where the reporting Party reports a Fault clearance on a POIL previously reported and handed over as a Fault, no after-hours repair fee shall be payable if the repairing Party has taken no action or is able to stop the repairing Party personnel from responding to the Fault reported and handed over;

4.2.2.6. where the reporting Party reports and hands over a Fault during Normal Business Hours and requests the repairing Party to attend to such Faults after-hours, an after-hours repair fee shall be payable;

4.2.2.7. where the reporting Party reports and hands over a Fault after-hours and that Fault is proven by the repairing Party to be in the reporting Party's Telecommunication System, then a Fault location fee shall be payable by the reporting Party in addition to the after-hours repair fee;

4.2.2.8. where the Fault is the result of the negligent or wilful act or omission of an employee or subcontractor of the repairing Party, no after-hours repair fee shall be payable.

4.3. Call-out services

4.3.1. Where either Party ("the requesting Party") requires access at any time to a site of the other Party ("the responding Party") for purposes of the requesting Party's own maintenance requirements and the requesting Party requires the responding Party to give access to its site, a call-out fee of R640.00 ("call-out fee") shall be payable by the requesting Party to the responding Party. For the avoidance of doubt the foregoing shall not apply where the repairing Party requires access to the reporting Party site in order to rectify a Fault

reported by the reporting Party. The call-out fee shall not be payable in the event that access is obtained to a site actually manned at the time of the required access.

- 4.3.2. Where a Party (“the offending Party”) accesses a site of the other Party without prior notification to the other Party’s ISD and an intrusion alarm is activated resulting in the other Party having to send personnel to its site to investigate the alarm, the offending Party shall be liable for a call-out fee.

4.4. Recurring Faults

In the case of a Recurring Fault, the repairing Party shall take all reasonable measures to find and clear the Fault by means of special investigations with the view to repair, re-route or provide a temporary alternate link, if possible, to improve the quality of service. The repairing Party shall report back to the reporting Party within 24 (twenty four) hours of a Fault being identified as a Recurring Fault and provide information on the possible cause of the Fault and the remedial action that is being planned.

4.5. Multiple Faults

Where the reporting Party reports and hands over multiple faults relating to a single failure, a minimum of 2 (two) Faults shall be reported and handed over to the repairing Party's ISD immediately and all remaining Faults relating to the aforesaid failure, shall be handed over within 2 hours of the first 2 (two) Faults being handed over. Faults as aforesaid not handed over within the said 2 (two) hour period shall not be accepted by the repairing Party's ISD.

4.6. Slow or intermittent error rates

4.6.1. Where the reporting Party reports and hands over a POIL which is faulty (having a slow or intermittent error rate), such fault not being a Fault in terms of 2.1 above, as regards unavailability of such POIL, such fault shall be accepted by the repairing Party as a miscellaneous fault which shall be dealt with no differently by the repairing Party than a Fault. No penalties shall be payable by the repairing Party in respect of a miscellaneous fault as aforesaid.

4.6.2. In cases where the reporting Party refuses the repairing Party to investigate or work on the problem during Normal Business Hours and insists that all investigations and/or work to be carried out be done after hours, an after-hours repair fee shall be payable.

4.7. Planned outages

Planned outages must be kept to an absolute minimum and shall not be carried out during busy traffic times. The Party planning such an outage shall inform the other Party's ISD 48 (forty eight) hours in advance (by mutual agreement this time scale can be reduced) and mutually agree upon a suitable time and expected duration for such an outage. During the planned outage, the responsible Party shall keep the other ISD informed at regular intervals with the progress until full restoration of service, whereupon the ISD's shall note the outage duration.

If any items are not restored to full service within the expected duration, time lost shall be dealt with as provided for in clause 4.3.5 of Appendix 9.

4.8. Access to the reporting Party's sites housing transmission line terminating equipment

When Faults on POILs at the reporting Party's sites are reported, the reporting Party shall provide access and/or assistance to the repairing Party's maintenance personnel at these sites during testing and repair of the Fault.

The reporting Party shall ensure, when procuring a site, that provision is made for the ongoing maintenance access by the repairing Party's staff.

4.9. General escalation procedure

A general escalation procedure, a copy of which shall be furnished by both Parties upon request, shall be established for all operation and maintenance activities and shall contain contact telephone numbers that shall be updated as and when changes occur.

5. **SERVICE REVIEWS**

Whenever required, meetings may be held between the Parties' ISD's to review the operational information exchange between the ISD's and the procedures as embodied herein.

6. **SETTLEMENT OF VARIOUS FEES**

6.1. Each Party undertakes, at its own cost and expense, to record all relevant information needed to enable it to determine the amounts owed to the other Party in respect of Rebates.

6.2. Based on the information recorded in respect of after-hour repair fees, Fault location fees and call-out fees, each Party shall calculate the amounts owed to and by the other Party and provide a summary of the information and calculations applicable to the relevant calendar month, no later than 10 (ten) Business Days after the reconciliation of the events giving rise to the above-mentioned charges has been completed by the respective ISD's of the Parties.

6.3. Following such exchange of information, the Parties shall, within 10 (ten) Business Days resolve any discrepancies and reconcile between themselves the amounts owed to and by each Party.

6.4. All billing procedures for the various fees are as detailed in clause 13 of the main Agreement.

**OPERATION AND MAINTENANCE PROCEDURES
FOR INTERCONNECTION**

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OPERATION AND MAINTENANCE PROCEDURES FOR INTERCONNECTION

1. INTRODUCTION

This Appendix addresses the operation and maintenance procedures for Interconnection.

2. DEFINITIONS

2.1. Cataleptic failure of Interconnection

A sudden failure, persisting for longer than 10 (ten) seconds, which is characterised by complete inability to perform the required functions of any aspect relating to Interconnection.

2.2. Fault

A Fault is an incident that will affect the availability of Interconnection.

2.3. Partial failure of Interconnection

Any failure other than a cataleptic failure which affects more than 15% (fifteen percent) of the total number of ports in service. A port is the interface between switching equipment and the environment.

3. INTERCONNECTION SERVICE DESK

3.1. The Interconnection Service Desks ("ISD") as envisaged in Appendix 7 shall manage all aspects relating to the proper functioning of Interconnection as well as to deal with all Faults relating to Interconnection.

3.2. Where inter-service assistance is required by either Party, this shall be requested through the other Party's ISD.

3.3. A copy of all ISD contact telephone numbers shall be made available by each Party to the other Party and shall be updated as and when changes occur.

3.4. Functions of each ISD shall be as follows:

3.4.1. receive Fault reports from each other, either directly or via nominated Fault reporting points;

3.4.2. issue a unique reference number to the other Party when a Fault is reported;

3.4.3. ensure the co-ordination and localising of Faults in respect of Interconnection;

- 3.4.4. control the return to service of Interconnection after Fault clearance, routine maintenance, etc;

- 3.4.5. be familiar with the re-routing procedures for any Interconnection under its control;
- 3.4.6. advise each other of the progress of Fault clearance where appropriate i.e. in the case of lengthy outages;
- 3.4.7. advise each other when the Fault has been rectified;
- 3.4.8. keep accurate records of Interconnection outages. Records shall include (in addition to information necessary for availability assessment), but not be limited to:
 - a) name of the Party's representative who reported the Fault;
 - b) unique reference number of the Party who reported the Fault;
 - c) the description of the problem as reported by the relevant Party;
 - d) date and time of all incidents/actions related to a Fault;
 - e) priority of the problem;
 - f) interconnection outage time;
 - g) location of the Fault;
 - h) nature of the Fault.

4. FAULT HANDLING AND RECTIFICATION PROCEDURES FOR INTERCONNECTION

4.1. Reporting of Faults

- 4.1.1. All Faults relating to Interconnection shall be reported to the other Party's ISD which shall report all Faults to the relevant maintenance sections of that Party according to its internal fault reporting procedures.
- 4.1.2. Prior to reporting and handing over Faults to the other Party's ISD, the reporting Party shall conduct a preliminary investigation into the Fault and ascertain as to whether the problem exists in its own Telecommunication System.

4.2. Cessation and recovery of Interconnection

4.2.1. Outages caused by cataleptic or partial failures

The duration of cataleptic or partial failures of any components included in the Interconnection are termed "outages". These outages could be planned or unplanned and such outages shall be reported to the other Party's ISD.

4.2.1.1. Unplanned outages

4.2.1.1.1. Upon detection of an unplanned outage, the relevant ISD's shall be notified. At the time of notification the outage could have ceased to exist or could still be persisting.

4.2.1.1.2. In cases where the outage has ceased to exist, the ISD's shall note the occurrence, duration and details of the failure.

4.2.1.1.3. In cases where the outage persists, immediate action shall be taken to localise the Fault causing the failure (and consequently identify which Party is responsible for clearing the Fault where this is unclear at first). The relevant ISD shall be informed every 15 (fifteen) minutes, or at mutually agreed upon intervals, thereafter by the responsible Party of the progress of the repair until restoration of full service whereupon the ISD's shall note the outage duration and details of the failure.

4.2.1.2. Planned outages

4.2.1.2.1. Planned outages shall be kept to an absolute minimum and shall not be carried out during busy traffic times.

4.2.1.2.2. The Party planning such an outage shall inform the other Party's ISD 48 (forty eight) hours in advance (by mutual agreement this time scale can be reduced) and mutually agree upon a suitable time and expected duration for such an outage.

4.2.1.2.3. During the planned outage, the responsible Party shall keep the other ISD informed at regular intervals with the progress until full restoration of service whereupon the ISD's shall note the outage duration.

4.2.1.2.4. If the items are not restored to full service within the expected duration, the outage shall be regarded as a planned outage followed by an unplanned outage and the procedure as set out in 4.2.1.1 above for an unplanned outage shall be followed.

4.2.2. Fault history

Each Party shall maintain records, preferably electronic, containing details of all Faults and the corresponding restoration times which were handled between the Parties for a running 12 (twelve) month period. These records shall be used to assess the Fault performance of Interconnection.

4.2.3. External influences which could affect Interconnection

4.2.3.1. International services

Each Party shall inform the other Party's ISD immediately of any major failures which could degrade international telephone services to any particular destination by more than 50% (fifty percent) as a result of the failure of satellite or undersea cables, international switches, etc. The other Party's ISD shall be informed of restoration of service and details of the failure.

4.2.3.2. National services

Each Party shall inform the other Party's ISD immediately of any major failures which could degrade its national telephone services between Switches/POPs by more than 50% (fifty percent) as a result of the failure of transmission media, Switches, POPs, etc. The other Party's ISD shall be informed of restoration of service and details of the failure.

5. MAINTENANCE PROCEDURES

5.1. Maintenance methodology

5.1.1. It is anticipated that certain scheduled (preventative) and unscheduled maintenance actions shall be carried out by the Parties on aspects relating to Interconnection. Where such actions by a Party could affect the proper functioning of Interconnection (e.g. working on critical, centralised equipment), the other Party's ISD shall be informed accordingly.

5.1.2. In the case of scheduled maintenance, the schedule of critical activities shall be made available to the other Party's ISD in advance. It would not be necessary to inform the other Party's ISD of completion of such activities. If the maintenance action results in a cataleptic or partial failure, the procedure in 4.2.1.1 above shall be followed.

5.2. Routine testing

The Parties shall supply each other with test Numbers to be used for test Calls for routine testing of the Interconnection and POILs. The Parties agree to use artificial traffic generators in such a way so as not to unduly load the Interconnection.

5.3. Interconnection and POIL utilization details

5.3.1. The Parties shall, where required, exchange records of utilisation and Call connection performance across the POI to ensure that service over the POI is maintained at satisfactory levels.

5.3.2. Information regarding planned dates for route augmentation shall also be exchanged between the Parties whenever necessary.

5.4. Malicious Call tracing

Authorised malicious Call tracing may be requested by either Party. The other Party shall give priority to the request.

5.5. General escalation procedure

A general escalation procedure, a copy of which shall be furnished by both Parties upon request, shall be established for all operation and maintenance activities and shall contain contact telephone numbers that will be updated as and when changes occur.

6. **SERVICE REVIEWS**

Whenever required, meetings may be held between the Parties' ISD's to review the operational information exchanged between the ISD's and the procedures as embodied herein.

SERVICE LEVEL AGREEMENT FOR POILs

CONTENTS

1. INTRODUCTION
2. DEFINITIONS
3. REBATES
4. MEASUREMENT OF SERVICE LEVELS
5. SETTLEMENT OF REBATES

SERVICE LEVEL AGREEMENT FOR POILs

1. INTRODUCTION

This Appendix deals with the service level agreement applicable to the maintenance of POILs.

2. DEFINITIONS

- 2.1. In this Appendix the following expressions bear the meanings assigned to them below and cognate expressions bear corresponding meanings –
- 2.1.1. "AADT" means the Agreed Down Time for which the service is unavailable as reported to the providing Party but excluding all agreed time periods during such service unavailability as set out in 4 of this Appendix 9. Multiple failures in a calendar month are accumulated;
- 2.1.2. "Fault" means an incident that will affect the availability of a POIL. A POIL is deemed to be unavailable when there is either no data throughput for a period greater than 10 (ten) seconds or when the error ratio exceeds 10^{-3} for more than 10 (ten) consecutive seconds.
- 2.1.3. "GMTR" means Guaranteed Maximum Time To Repair being the maximum time allowed to enable the providing Party to complete the repair of a failure without incurring penalties, as measured by the Time To Repair (TTR);
- 2.1.4. "Monthly Rental" means the total rental paid in an applicable month for a POIL after all discounts have been taken into consideration;
- 2.1.5. "MTTR" means Mean Time To Repair being the average time taken to repair failures;
- 2.1.6. "Pmax" means the maximum Rebate applicable at Tmax expressed as a percentage (%) of the Monthly Rental for the particular POIL;
- 2.1.7. "providing Party" means the Party providing a POIL to the supplied Party;
- 2.1.8. "Rebate" means the portion of the Monthly Rental that will be refunded to the supplied Party as a service credit if the providing Party fails to meet the GMTR and in accordance with a sliding scale as set out in this Appendix;
- 2.1.9. "supplied Party" means the Party to whom a POIL is provided by the providing Party;
- 2.1.10. "TTR" means Time To Repair being the time taken from the time that the Fault is reported by the supplied Party to the providing Party, until completion of the repair, as verified by the supplied Party. TTR includes a maximum of 15 (fifteen) minutes for final testing by the supplied Party;
- 2.1.11. "Tmax" means the maximum time elapsed at which point a full Rebate is applicable;

- 2.2. Any expression not defined herein shall bear the meaning assigned to it in the main Agreement and cognate expressions shall bear corresponding meanings as in the main Agreement.

3. **REBATES**

- 3.1. Fault reporting and rectification procedures

All aspects relating to the reporting of Faults, Fault rectification, call outs and escalation procedures shall be as provided for in Appendix 7.

- 3.2. Repair service levels

Repair service levels are expressed in terms of a GMTR per POIL and per calendar month.

- 3.3. GMTR for POILs

The GMTR figures offered are indicated in the following table.

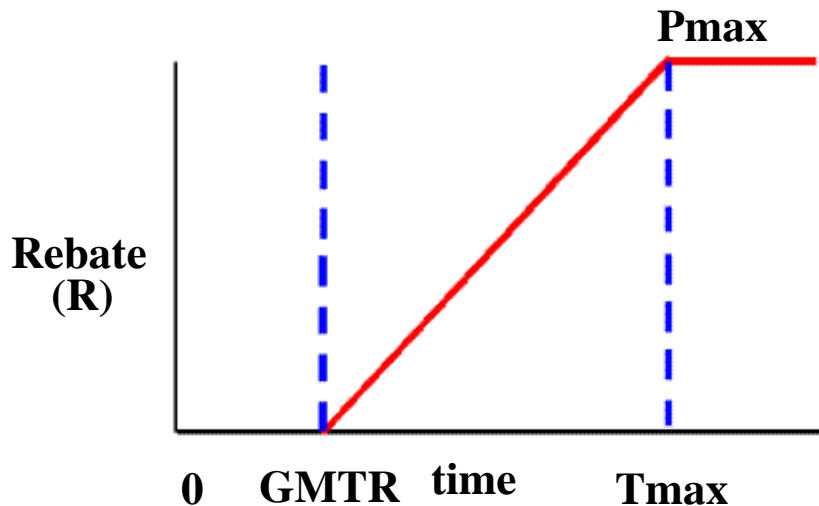
Service Level Option	Contract GMTR (hrs)
Bronze	24
Silver	8
Platinum	2

A maximum period of 15 (fifteen) minutes is included in the GMTR for end-to-end testing by the supplied Party for the validation of the providing Party's Fault clearance for an individual POIL.

- 3.4. Service credits

- 3.4.1. Service credits shall be granted in the form of a Rebate on the Monthly Rental for that specific circuit.

- 3.4.2. Rebates shall be paid on a sliding scale from the GMTR to Tmax, which is equal to 4 (four) times the GMTR for POILs, as depicted in the graph below. Pmax is based on the accumulated down time for the relevant calendar month.



3.4.3.

The following formula details the calculation of Rebates:

For agreed down time greater than GMTR but less than or equal to Tmax (calculations to be done per circuit per calendar month):

$$\text{Rebate} = \frac{(\text{Agreed Down Time for the month (hrs)} - \text{GMTR (hrs)}) \times \text{Pmax} \times \text{Monthly Rental}}{\text{Tmax (hrs)} - \text{GMTR (hrs)}}$$

Agreed down time excludes all allowances that lead to clock stop or deferred time.

3.4.4.

The Rebate shall be capped at a maximum of Pmax calculated on a calendar monthly basis and as defined in the table below.

Service Level Option	Pmax on Monthly Rental
Bronze	15%
Silver	30%
Platinum	100%

4. MEASUREMENT OF SERVICE LEVELS

4.1.

The service level shall be measured per POIL irrespective of the number of links used to provide the POIL and shall be done on a calendar month basis.

4.2.

Where a number of POILs are affected by the same Fault, the down time shall be recorded against each individual POIL.

4.3.

The AADT shall exclude the following times-

4.3.1.

Elapsed time from when the Fault is reported to the providing Party's ISD after hours until the start of the following Business Day if the supplied Party elects not to make use of the providing Party's after hours repair service.

- 4.3.2. The time lost in the case where repairs are started during normal hours, stopped after hours and resumed on the following Business Day with the consent of the supplied Party.
- 4.3.3. The time lost when Faults cannot be repaired due to a lack of access to the supplied Party's sites and/or lack of assistance from the supplied Party.
- 4.3.4. The time lost due to the supplied Party's ISD not being available to receive a Fault clear report.
- 4.3.5. The time lost due to planned outages (scheduled maintenance) as provided for in clause 4.7 of Appendix 7. Where the planned outage time exceeds the agreed time frames, the extra down time shall be regarded as outage time on a POIL unless the supplied Party's ISD agrees to the extension of the planned outage time.
- 4.3.6. Where a planned outage time is requested less than 48 (forty eight) hours before the planned outage (unscheduled maintenance), the outage time shall be added to the unavailability time of a POIL unless the supplied Party's ISD agrees to this short notice planned outage.
- 4.4. Only Faults due to failures of the providing Party's equipment or the providing Party's working party involvement or 50% (fifty percent) of the outage time due to Faults cleared as "no Fault found", shall be taken into account when calculating the down time for individual POILs. It is specifically recorded that Faults due to failure of the supplied Party's power supply shall not be taken into account when calculating the down time for individual POILs.
- 4.5. Should the supplied Party require any testing time additional to the maximum 15 (fifteen) minute period as set out in 3.3 of this Appendix 9, such additional testing time shall not contribute to down time unless the Fault on the POIL is still proven to be within the providing Party's Telecommunication System.
- 4.6. Clause 23 of the main Agreement (force majeure) will be applicable to the repair of Faults and the measurement of down time for individual POILs.

5. **SETTLEMENT OF REBATES**

- 5.1. Each Party undertakes, at its own cost and expense, to record all relevant information needed to enable it to determine the amounts owed to the supplied Party in respect of Rebates.
- 5.2. Based on the information recorded in respect of Rebates, each Party shall calculate the value of the Rebates owed to the supplied Party and provide a summary of the information and calculations applicable to the relevant year, no later than 10 (ten) Business Days after the reconciliation of the events giving rise to the above mentioned Rebates has been completed by the respective ISD's of the Parties.
- 5.3. Following such exchange of information, the Parties shall, within 10 (ten) Business Days resolve any discrepancies and reconcile between themselves the value of the Rebates owed to the supplied Party.

5.4. All billing procedures for Rebates are as detailed in clause 13 of the main Agreement.

TELKOM CHARGES AND DISCOUNTS FOR POILs

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1. INTRODUCTION
2. TELKOM POIL CHARGES
3. DISCOUNTS ON TELKOM POIL CHARGES
4. EXPLANATORY NOTES ON TELKOM POIL CHARGES

TELKOM CHARGES AND DISCOUNTS FOR POILs

1. INTRODUCTION

This Appendix addresses Telkom POIL charges and discounts for POILs.

2. TELKOM POIL CHARGES

2.1. Charges for Bronze temporary services

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Hourly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	20 367.00	2.33
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	20 367.00	2.72
	>20 to 30	20 367.00	3.68
	>30 to 40	20 367.00	5.53
	>40 to 50	20 367.00	5.89
	>50 to 100	20 367.00	9.00

Type of link	Radial Distance (km)	Hourly Rental per km (R Excluding VAT)
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	0.20
	>50 to 200	0.12
	> 200 to 400	0.07
	>400	0.05

2.2. Charges for Silver temporary services

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Hourly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	20 367.00	2.39
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	20 367.00	2.78
	>20 to 30	20 367.00	3.76
	>30 to 40	20 367.00	5.67
	>40 to 50	20 367.00	6.03
	>50 to 100	20 367.00	9.21

Type of link	Radial Distance (km)	Hourly Rental per km (R Excluding VAT)
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	0.20
	>50 to 200	0.12
	> 200 to 400	0.08
	>400	0.05

2.3. Charges for Silver permanent services – 1 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	16 294.00	1 396.43
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	16 294.00	1 628.63
	>20 to 30	16 294.00	2 196.23
	>30 to 40	16 294.00	3 307.78
	>40 to 50	16 294.00	3 520.63
	>50 to 100	16 294.00	5 380.38

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	361.20	68.10
	>50 to 200	2 336.33	28.59
	> 200 to 400	5 418.84	13.18
	>400	7 895.46	6.98

2.4. Charges for Silver permanent services – 3 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	15 479.30	1 344.47
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	15 479.30	1 568.03
	>20 to 30	15 479.30	2 114.51
	>30 to 40	15 479.30	3 184.70
	>40 to 50	15 479.30	3 389.63
	>50 to 100	15 479.30	5 180.18

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	347.76	65.57
	>50 to 200	2 249.40	27.52
	> 200 to 400	5 217.20	12.69
	>400	7 601.67	6.72

2.5. Charges for Silver permanent services – 4 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	14 664.60	1 234.05
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	14 664.60	1 439.25
	>20 to 30	14 664.60	1 940.85
	>30 to 40	14 664.60	2 923.15
	>40 to 50	14 664.60	3 111.25
	>50 to 100	14 664.60	4 754.75

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	319.20	60.18
	>50 to 200	2 064.67	25.26
	> 200 to 400	4 788.74	11.64
	>400	6 977.38	6.17

2.6. Charges for Silver permanent services – 5 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	14 664.60	1 169.10
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	14 664.60	1 363.50
	>20 to 30	14 664.60	1 838.70
	>30 to 40	14 664.60	2 769.30
	>40 to 50	14 664.60	2 947.50
	>50 to 100	14 664.60	4 504.50

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	302.40	57.02
	>50 to 200	1 956.00	23.93
	> 200 to 400	4 536.70	11.03
	>400	6 610.15	5.85

2.7. Charges for Platinum permanent services – 4 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	25 255.70	2 208.30
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	25 255.70	2 575.50
	>20 to 30	25 255.70	3 473.10
	>30 to 40	25 255.70	5 230.90
	>40 to 50	25 255.70	5 567.50
	>50 to 100	25 255.70	8 508.50

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	571.20	107.70
	>50 to 200	3 694.66	45.21
	> 200 to 400	8 569.32	20.84
	>400	12 485.84	11.04

2.8. Charges for Platinum permanent services – 5 year

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Installation Charge	Monthly Rental
<u>Local ends</u> (within same exchange area) between a POP and a Telkom Switch A Tariff	Flat Rate	21 996.90	1 883.55
<u>Inter-premises connections</u> between a POP and a POI B Tariff	0 to 20	21 996.90	2 196.75
	>20 to 30	21 996.90	2 962.35
	>30 to 40	21 996.90	4 461.65
	>40 to 50	21 996.90	4 748.75
	>50 to 100	21 996.90	7 257.25

Type of link	Radial Distance (km)	(R Excluding VAT)	
		Monthly Fixed Cost	Monthly Rental per km
<u>Main links</u> between Telkom Switches C Tariff	0 to 50	487.20	91.86
	>50 to 200	3 151.33	38.56
	> 200 to 400	7 309.13	17.77
	>400	10 649.68	9.42

3. DISCOUNTS ON TELKOM POIL CHARGES

3.1. Route based installation discounts

Type of POIL	Package Option	Contract period (years)	Service Level option	Installation fee discounts based on number of POILs per route (Note 1)						
				A Tariff			B Tariff			
				1 st POIL	2 nd , 3 rd and 4 th POIL	5 th and subsequent POILs	1 st POIL	2 nd , 3 rd and 4 th POIL	5 th , 6 th , 7 th and 8 th POIL	9 th and subsequent POILs
Temporary	T1	<1	Bronze	0%	20%	25%	0%	35%	50%	60%
	T2	<1	Silver	0%	25%	30%	0%	35%	50%	60%
Permanent	P1	1	Silver	0%	25%	30%	0%	35%	50%	60%
	P2	3	Silver	0%	25%	30%	0%	35%	50%	60%
	P3	4	Silver	0%	25%	30%	0%	35%	50%	60%
	P4	5	Silver	0%	25%	30%	0%	35%	50%	60%
	P5	4	Platinum	0%	25%	30%	0%	25%	30%	30%
	P6	5	Platinum	0%	25%	30%	0%	25%	30%	30%

Note 1: Route based installation fee discounts are calculated on the charges referred to in 2 of this Appendix 10. For the purpose of determining installation fee discounts on POILs, a route is defined as a group of POILs used to connect a POI and a POP. In instances where POILs of more than one service level exist between a POI and a POP, calculation of the above mentioned discount is performed separately for each service level.

3.2. Volume discounts on total rental charges

3.2.1. Monthly rental discounts shall be applicable to all POILs (permanent and temporary) and shall be based on the total POIL bandwidth leased by Neotel in terms of this Agreement, regardless of site location. The discount shall be calculated on a calendar month basis according to the total bandwidth reflected on the main account for an applicable calendar month. For the avoidance of doubt, broken period rentals shall also form part of the calculation for an applicable calendar month.

3.2.2. The volume based discounts set out in the table below are irrespective of the package options selected by Neotel.

Bandwidth	Discount
< 1000 Mb/s	0%
1000 – 5000 Mb/s	2.5%
5001 – 15000 Mb/s	5%
15001 – 30000 Mb/s	7.5%
> 30000 Mb/s	10%

3.3. If the Parties have entered into a fixed link leasing agreement, the fixed links provided in terms of that agreement shall also be included in order to determine the total bandwidth discount to be applied to the POILs provided by Telkom in terms of this Agreement.

4. **EXPLANATORY NOTES ON TELKOM POIL CHARGES**

4.1. Where POILs are required for connecting a POI to a POP:

4.1.1. and the POI and POP being connected by means of a POIL are within 100 (one hundred) km of one another, then the B tariff will be applied.

4.1.2. and the POI and POP being connected by means of a POIL are further than 100 (one hundred) km from one another, then the A tariff shall be applied to the portion of the POIL between the POP and its nearest Telkom switching exchange, plus the C tariff based on the radial distance between the two Telkom switching exchanges, plus the A tariff shall be applied to the portion of the POIL between the POI and its nearest Telkom switching exchange.

Exhibit 12.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) (17 CFR 240.13a-14(a)) OR RULE 15d-14(a) (17 CFR 240.15d-14(a)), PROMULGATED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Reuben Joseph September, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended March 31, 2008 of Telkom SA Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit

committee of the company's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By: /s/ Reuben Joseph September
Name: Reuben Joseph September
Title: Chief Executive Officer
(principal financial officer)

Date: July 18, 2008

Exhibit 12.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) (17 CFR 240.13a-14(a)) OR RULE 15d-14(a) (17 CFR 240.15d-14(a)), PROMULGATED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Deon Jefta Fredericks, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended March 31, 2008 of Telkom SA Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

By: /s/ Deon Jefta Fredericks

Name: Deon Jefta Fredericks

Title: Acting Chief Financial Officer
(principal financial officer)

Date: July 18, 2008

Exhibit 13.1

CERTIFICATION FURNISHED PURSUANT TO RULE 13a-14(b) (17 CFR 240.13a-14(b)) OR RULE 15d-14(b) (17 CFR 240.15d-14(b)) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE (18 U.S.C. 1350), PROMULGATED UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Telkom SA Limited (the "Company") on Form 20-F for the year ending March 31, 2008 (the "Report"), we, Reuben Joseph September, Chief Executive Officer of the Company, and Deon Jefta Fredericks, Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, promulgated under Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 18, 2008

By: /s/ Reuben Joseph September
Reuben Joseph September
Chief Executive Officer
(principal executive officer)

Date: July 18, 2008

By: /s/ Deon Jefta Fredericks
Deon Jefta Fredericks
Acting Chief Financial Officer
(principal financial officer)

The foregoing certifications are being furnished solely pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates them by reference.