GROUP FINANCIAL STATEMENTS

Directors' responsibility statement

The directors are responsible for the preparation of the annual financial statements of the Company and the Group. The directors are also responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets.

In presenting the accompanying financial statements, International Financial Reporting Standards have been followed and applicable accounting policies have been used incorporating prudent judgements and estimates.

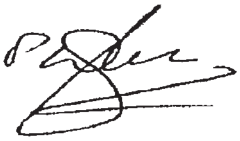
The external auditors are responsible for independently auditing and reporting on the annual financial statements.

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The internal controls include a risk-based system of internal auditing and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's policies and procedures.

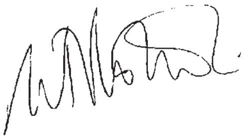
The directors, primarily through the Audit and Risk Committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal controls, auditing and financial reporting.

The directors are of the opinion, based on the information and explanations given by management and internal audit that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA SOC Limited continues to adopt the going concern basis in preparing the annual financial statements.

Against this background, the directors of the Company accept responsibility for the annual financial statements, which were approved by the Board of Directors on 7 June 2012 and are signed on their behalf by:



Lazarus Zim
Chairman of the Telkom Board



Nombulelo Moholi
Group Chief Executive Officer

Jacques Schindehütte
Chief Financial Officer

Pretoria
7 June 2012

Preparer and supervisor of annual financial statements

These Company and Group financial statements were prepared by Mrs Dashni Sinivasan (Executive: Statutory Reporting) and supervised by Mr Deon Fredericks (Deputy Chief Financial Officer).

Report from the Human Resources Review and Remuneration Committee

Dear shareholder,

This remuneration report is intended to provide an overview and understanding of the Company's remuneration principles and policies with specific emphasis on the non-executive directors, executive directors, executive committee and prescribed officers in the Company. The Company adopted the governance and disclosure requirements stipulated in the King Code of Governance Principles for South Africa 2009 (King III) and the Companies Act No. 71 of 2008 and incorporated the required information in this report.

The Human Resources Review and Remuneration Committee remains mindful of the remuneration trends in the global environment and carefully considers all practices against the business and remuneration strategies ensuring that the remuneration practices support the achievement of business objectives without introducing additional risks to the organisation.

RJ Huntley
Chairman of the Human Resources Review and Remuneration Committee

7 June 2012

This report sets out the Company's remuneration policy and practice for executive and non-executive directors, executive committee and executive management and provides detail of their remuneration and share interests for the financial year ended 31 March 2012.

ROLE OF THE HUMAN RESOURCES REVIEW AND REMUNERATION COMMITTEE AND TERMS OF REFERENCE

The Human Resources Review and Remuneration Committee (HRRRC) is established by the Board in terms of the Company's articles of association to assist the Board of Directors to fulfill its responsibility to shareholders and the investment community by making recommendations on policies and processes regarding the appointment, remuneration, development and succession of members of the Executive Committee of the Company in support of the Company's strategic objectives.

The Board mandated the HRRRC to:

- recommend to the Board policy guidelines on human resource development within the Company that supports the achievement of the Company strategy and business plan of the Company;
- recommend to the Board guidelines for transformation within the Company, and monitor compliance with affirmative action and empowerment programmes that duly take into account the recommendations of the Chief of human resources, and are in conformity with the business plan of the Company;
- review the terms upon which the executive directors, and the members of the Executive Committee of the Company are employed and remunerated;
- review the remuneration of non-executive directors and make recommendations to the Board;
- approve the disclosure on the remuneration of executive and non-executive directors in the remuneration report and the statement of remuneration policy advised to shareholders. This provides a full detailed breakdown of directors' packages and share scheme awards; and
- review all human resources related policies within the organisation and any significant changes thereto.

The HRRRC held four scheduled meetings and no special meetings during the financial year. A quorum for a meeting is 50% of the members.

MEMBERS OF THE HRRRC

The committee consists of non-executive directors and executive management as provided in the Company's articles of association. Ms NP Dongwana, an independent non-executive director, was appointed Chairman of the HRRRC as of 1 June 2012. Ms RJ Huntley, who served as Chairman of the HRRRC since December 2009 stepped down with effect from 31 May 2012. For the 2012 financial year the HRRRC comprised the following non-executive directors (of whom two are independent) and an Executive Committee member:

RJ Huntley (Chairman)
(stepped down with effect from 31 May 2012)
PL Zim
B du Plessis (independent)
PG Joubert (retired with effect from 30 August 2011)
JN Hope
J Molobela
TE Msubo (Chief of Human Resources)

The Group's Chief Executive Officer attends the HRRRC meetings by invitation and participates in the HRRRC deliberations, except when issues relating to her own compensation are discussed. The remuneration of non-executive directors is determined by the Board. In the financial year, the HRRRC was advised by the Company's human resources and finance functions and also took external advice from an independent external consulting firm.

During the financial year, the key remuneration decisions taken were as follows:

- The Board took the decision not to increase the non-executive directors' fees for the 2012 and 2013 financial years.
- There was a decision to implement a long-term incentive with effect from the first date of the calendar month following approval of the scheme by the shareholders at the Annual General Meeting scheduled for 2012.

REMUNERATION PRINCIPLES AND POLICIES

Remuneration strategy

The Telkom remuneration strategy is designed to attract, retain and motivate high-caliber talent in a challenging business environment. Remuneration is based on performance measures which are aligned to the strategic intent and business plans of the Company.

Dimension	Remuneration tools	Desired outcome
Attract	Guaranteed package Sign-on bonus	Attractive remuneration packages
Motivate	Short-term incentives	Attractive rewards for achieving stretch targets
	Long-term incentive	Share in long-term wealth creation/ sustained performance
Retain	Retention agreements	Retain top business leaders and top talent
	Restraint of trade	Protect commercially sensitive information

The strategy aims to focus the effort and attention of individuals on the Telkom strategic deliverables for long-term sustainability, as well as on short-term business plan deliverables for profitability, both of which are imperative to shareholder value creation.

The Telkom remuneration structure is designed to ensure that rewards are aligned to strategic and operational outcomes. Our philosophy, which is aligned with market practice, is to reward all Telkom employees on total earnings of market median, including guaranteed packages.

The market environment in which Telkom operates is characterised by intensifying competition with mobile operators and new entrants to the market which continues to put pressure on the Company. As the market expands with operators in all spheres of our business, the challenge of retaining experienced executive leadership, as well as attracting new talent required for the new and growing areas of our business, such as data and fixed-mobile convergence increases. The demand for talent in the communications industry is increasing. This requires competitive and attractive remuneration offerings, to ensure that Telkom continues to attract, motivate and retain the best in class talent to drive Company strategic intents and to deliver operational results.

Objectives

The remuneration strategy is designed to compete effectively for talent in a competitive labour market in order for Telkom to successfully achieve the following objectives:

- Be an integral part of an overall human resources strategy, geared to support business strategies;
- Emphasise value creation;
- Establish a formal, transparent and fair reward strategy;
- Control and manage total cost of employment;
- Retain competent employees to enhance business performance;
- Motivate individual and team performance to drive shareholder value and employee engagement;
- Differentiate payment based on individual performance; and
- Maintain a balance between guaranteed remuneration, short-term incentives and long-term incentives.

Principles

Telkom recognises that one of its competitive sources of value is its employees, and believes that in order to meet our business plan objectives our remuneration and reward policies and practices must be based on the following principles:

- Be designed to motivate and reinforce superior performance;
- Encourage the development of organisational, team and individual performance;
- Encourage the development of competencies required to meet future business needs;
- Be based on the premise that employees should share in the success of the Company;
- Be designed to attract and retain high-quality individuals with the optimum mixture of competencies;
- Be aimed at securing our employees' commitment to Telkom's goals via the optimum combination of financial and non-financial rewards; and
- Be congruent with the anti-discriminatory clause in the Bill of Rights.

Guaranteed packages

Guaranteed packages are influenced by the scope of the role and the knowledge, skills and experience required of the position holder and reflects the market median determined through external market research that yields market data and appropriate salary ranges for specific positions.

Employees do not have a right to annual guaranteed package increases. Annual increases are subject to industry market conditions, employee performance, internal equity, strategic investments and the Company's overall financial position and the ability to pay. Employees can structure their guaranteed packages within the framework of the applicable policies, practices and regulatory requirements. Remuneration adjustments outside the annual remuneration review process may be considered under exceptional circumstances and will be subject to the agreed authorisation.

All positions are evaluated to determine their relative value and contribution in terms of complexity and required outcomes. Positions are evaluated using the Company's job evaluation system (Decision Tree), which correlates with the Paterson grading system as follows:

Hierarchical level	Level of leadership	Telkom grade
Executive	Executive Committee/ Executive management team	M0
Managing Directors/ Chief Officers		
Senior managing executives		M1
Group/Managing executive		M2
Executives	Executive leadership	M3
Senior manager/ manager	Frontline leadership	M4/5
Operations manager/ supervisor	Frontline leadership	M6
Support staff/ technician/specialist	Operational	OP1/2/A

Salary structures are benchmarked against the Company's labour market competitors via annual salary surveys in which the Company conducts and/or participates. In this way the Company maintains awareness of market remuneration levels per Paterson job band and per job family. Annual increases in guaranteed remuneration are performance related and is based on the job (market conditions) and affordability.

Group Chief Executive Officer

The Group Chief Executive Officer (GCEO) is rewarded on the delivery of the strategic and operational deliverables in line with shareholder expectations and business strategy. The remuneration strategy for the GCEO is designed to align remuneration with long-term shareholder growth and sustainable profitability. The reward should demonstrate the critical and pivotal role the GCEO plays in the achievement of Company strategic objectives and operational goals. Guaranteed package is set at market median.

Executive Committee and Executive management team

Guaranteed packages are in line with similar roles in the applicable market according to organisational size, profitability and complexity. It is also influenced by the scope of the role and knowledge, skills and experience required of the position holder. Guaranteed packages are reviewed against individual performance, and set against market median.

For full details on the Executive Committee refer to pages 18 and 19.

The average guaranteed package increase for the current year was 3%, the prior year was 2% and the average increase for the 2013 financial year is 4.66%.

Executive employees

The average guaranteed package increase for the current year was 3%, the prior year was 9% and the average increase for the 2013 financial year is 6%.

Management employees

Guaranteed packages for management levels are reviewed annually as part of the Company's overall remuneration review process and are assessed against individual's performance. The average guaranteed package increase for the current year was 3%, the prior year was 7% and the average increase for the 2013 financial year is 6%.

Bargaining unit employees

Telkom follows a balanced approached in granting annual salary increases for bargaining unit employees with due consideration of CPI, market movements and affordability. In 2011 the Company has entered into a two-year long-term agreement, from 1 April 2011 to 31 March 2013, with organised labour. The negotiated annual guaranteed package increases for the current year was 7%, prior year was 7% and the increase for the 2013 financial year is 6.5%

Short-term incentive

Short-term incentive component is an incentive that delivers reward on achievement of annual performance targets. The level of achievement determines the level of payment against each weighted Company performance measure.

The short-term incentive paid comprises a cash payment, which is payable after finalisation of results at the end of the relevant financial year.

The objectives of the short-term incentive plan are as follows:

- To support the achievement of the Group's annual performance targets including the priority focus areas and annual business plan targets;
- To encourage over achievement of Group results;
- To drive a strong performance culture whereby recognising and rewarding exceptional performance of the Company, teams and of individuals;
- Adequately differentiate between exceptional and mediocre performance;
- Ultimately, to reward team and individual contribution and performance: "what is good for shareholders, customers and employees";
- More emphasis is placed on divisional performance to support the overall business strategy and create a clear line of site especially for lower level employees; and
- Divisional measures will ensure that divisions have better line of sight and fully understand the impact of their performance on the award, which ultimately will have a positive impact on individual and team performance.

In line with the new remuneration policy approved by shareholders, the overall Company performance will be measured at Group, business unit and divisional level as indicated below. The Corporate Centre will be focusing on providing overall policy and steering the Company and business units. The Board introduced financial triggers as well as an overarching Board discretion clause. The two financial triggers are earnings before interest and taxation and net profit.

	Business unit %	Corporate Centre %
Group STI Plan	30	50
Business unit STI Plan	40	20
Divisional STI Plan[1]	30	30
Total	100	100

[1] *Individual performance will account for 30% of the overall plan.*

The maximum bonus achievable under the short-term incentive plan, expressed as a percentage of their guaranteed packages, is shown in the table below:

Position	Stretch incentive % of guaranteed package	Target incentive % of guaranteed package	Hurdle incentive % of guaranteed package
Group Chief Executive Officer	110	100	50
Executive Committee	88	80	40
Executive management team	60.5	55	27.5
Executive employees	33	30	15
Management employees	22	20	10
Bargaining unit employees	19.8	18	9

The performance of the Group and business units will be measured against the following indicators:

- Earnings before interest and taxation measured on Group level;
- Basic earnings per share measured on Group level;
- Returns on assets before taxation measured on Group level;
- Free cash flow measured on Group level;
- Financial performance, customer satisfaction, transformation (culture revitalisation and BBBEE) will be measured on business unit level; and
- Divisional specific measures are measured on divisional level.

The rules, targets and measurements are tabled annually on recommendation of the HRRRC to the Board for approval. The HRRRC will decide on the bonus amount payable to the GCEO subject to the actual audited Company performance reflected in the plan under review. The GCEO is responsible for the allocation of the rest of the amount available to the Executive Committee, executive management team and other employees as per the audited results and the approved plan under review.

Short-term incentive plan awarded for the 2012 financial year

The average Company achievement against the approved targets was 61.08%. Despite the Group's performance falling short of expectations, the Board of Directors has decided to pay employees an incentive to recognise their efforts under challenging circumstances. To this effect an average incentive was approved of 42.75% for the bargaining unit and 30.54% for all management employees.

Long-term incentive awards

We concluded the final vesting of shares in accordance with the Telkom Conditional Share Plan in June 2010 and currently do not have a share plan in place. However, a new share plan for selected management employees will be submitted to the shareholders for approval at the Annual General Meeting to be held on 26 September 2012.

Proposed share incentive plan

The proposed share incentive plan is structured to optimise the Company's overall position, while providing benefits that will assist the Company to attract, retain and incentivise certain management levels and top talented employees. The share incentive plan is designed to support the principle of alignment between management and shareholder interests with the aim to ultimately ensure growth in shareholder value.

The objectives of the proposed share incentive plan is to motivate long-term sustainable performance, align the interests of top management with those of shareholders, retain business critical and top talented employees and provide a long-term incentivisation tool for top management.

The proposed share incentive plan will consist of the following two share-based incentive plans: The Share Appreciation Right Scheme and Forfeitable Share Plan.

Share Appreciation Rights (SARs)

Eligible employees will receive annual grants of Share Appreciation Rights, which are rights to receive shares equal to the value of the difference between the exercise price and the grant price. Vesting of the rights is subject to specific performance conditions.

When the holder elects to exercise the vested right, the Company settles the difference between the market price on grant date and the exercise price in equity.

Forfeitable Share Plan (FSP)

Forfeitable Share Plan entails a free transfer of shares to an employee, under the condition of forfeiture in the case that:

- Termination of service before the vesting/release date; and
- The Company's pre-determined performance levels.

From grant date, the employee has shareholder rights in respect of the forfeitable shares including:

- Dividend rights; and
- Voting rights.

Performance conditions for vesting

The following financial measures must be achieved in order for awards to be vested:

Share Appreciation Rights (SARs)

The SARs should support the principle of alignment of management and shareholder interests performance conditions governing the vesting of instruments for senior management and executives should relate to growth in shareholder value and should be stretching but achievable.

In line with market practice, the performance condition linked to the vesting of a SAR should be over a three-year period and measured as follows:

- Profit after tax (PAT) (50% weighting); and
- HEPS +CPI (50% weighting).

Forfeitable Share Plan (FSP)

The vesting of the FSP grant be subject to the following performance condition measured over a three-year period as in Telkom's approved business plan:

- EBITDA.

The HRRRC will meet annually in order to consider the selection of eligible employees and will consider the following factors to determine the number and value of rights and conditional awards to be granted to each eligible employee:

- Benchmarked face value of share-based incentive awards as a percentage of guaranteed pay. Where employees qualify for both FSP and SARS participation, 50% of the face value of the awards will be granted in terms of the rules of the SARS and the remaining 50% in terms of the rules of the FSP;
- Annual guaranteed package on the award date; and
- Individual performance assessment.

The Board will annually determine performance conditions for each allocation.

Limits to the proposed incentive share plans

The aggregate number of shares which may be allocated under the LTIP when added to the total number of conditional awards, which have been allocated previously under the LTIP and any shares allocated to employees under any other managerial scheme operated by the Company, shall not exceed 26,039,195 shares equating to approximately 5% of the current number of issued ordinary shares of the Company.

The maximum number of shares allocated to all unvested awards granted to any participant, in respect of the LTIP and any other managerial scheme operated by the Company, shall not exceed 5,207,839 shares, representing approximately 1% of the current issued ordinary share capital of the Company.

The HRRRC may not grant conditional awards to an employee in any financial year if it would at the proposed date of grant because the face value of the grant, which such employee has been granted in that financial year to exceed 120% of the employee's guaranteed package at the proposed date of grant. In order to enhance the Company's ability to attract external candidates, the HRRRC has the discretion to increase such limit to 240% in the year of appointment of an employee.

External appointments

Executive directors are not permitted to hold external directorship or offices without the prior approval of the Board. To avoid conflict of Company interest or impair the employee's ability to render productive service to Telkom, the employee may not accept membership of a Board of Directors without prior written permission. In the case of a member of the Executive Committee of Executive Management team permission should be obtained from the GCEO. Telkom may withdraw permission to serve on a Board of Directors at any stage.

Service agreements

Effective from 1 April 2011, Telkom entered into a service agreement with NT Moholi, which has a three-year term, expiring 31 March 2014, with an annual one-year renewal, subject to either party tendering notice of their intention to terminate the agreement on or before 30 June of the applicable year.

JH Schindehütte was appointed as Chief Financial Officer with effect from 1 August 2011 until 31 July 2016; thereafter the agreement may be renewed for a two-year period subject to either party tendering six months' notice of their intention to terminate the agreement. All other members of the Executive Committee have indefinite service employment contracts with a three-month notice period by either party.

Executive directors	Year of employment	Year first appointed to the Board	Year due for re-election
NT Moholi	2011	2011	2014
JH Schindehütte	2011	2011	2016

Retention and restraint agreements

In order to ensure that Telkom attract highly skilled and experienced ICT Business Leaders, Telkom can sign retention and/or restraint of trade agreement for specific candidates in specific roles. The main objective is to protect Telkom's interest with reference to trade secrets and confidential information. Confidential information to include, *inter alia,* information relating to Telkom strategic objectives, information relating to business activities, technical, scientific commercial, financial and market information, business data and plans, designs, drawings, and technical requirements and specifications of Telkom. After termination of the employment contract and for the duration of the restraint period the employee shall not carry on or be interested or engaged in/or concerned with or employed by any company, which engaged in any way in, the competitive activity or provides services which are the same as or similar to the competitive activity.

Restraint agreements have been signed with NT Moholi, GCEO, which prevents her from competing within the communications industry for two years from last day of employment.

Retention agreements were signed with the following Executive Committee members and the details are reflected on page 122.

Executive Committee	Retention agreement lapses
BC Armstrong	31 January 2015
DJ Fredericks	31 July 2013
JM Mavuso	31 January 2015
TE Msubo	28 February 2013
GJ Rasethaba	28 February 2014
MB Sallie	31 January 2015

Sign-on bonus

Sign-on bonuses may be allocated on the discretion of the GCEO on recommendation of Executive Committee members, to prospective staff members who meet specific criteria. The intention of the sign-on bonus is to act as a recruitment incentive to assist in talent attraction and compensate for potential loss of benefits from previous employer. The full sign-on bonus amount will be recovered if the individual terminates his/her employment contract.

We paid JH Schindehütte a sign-on bonus. This bonus will be fully recovered should he resign from his position before 31 July 2013.

Non-executive directors' remuneration key principles and policies

The Board of Directors, on the recommendation of the HRRRC, determines the fees of the non-executive directors. These fees are set out on page 123 and in note 41 in the consolidated annual financial statements.

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 long-term incentive share plan or in the short-term incentive plan outlined herein and are not eligible for pension scheme membership.

The remuneration structure is considered to be fair and reasonable and in the best interests of the Company.

Service agreements

Telkom entered into a service agreement with PL Zim effective from 16 February 2011, which had a one-year term, expiring 15 February 2012. On 8 February 2012 shareholders were advised that PL Zim had been re-appointed as Chairman with immediate effect. His term of office will end the earlier of 31 August 2013 or at the Company's Annual General Meeting of 2013.

Non-executive directors	Year first appointed to the Board	Year last re-elected as a director	Year due for re-election
PL Zim (Chairman)	2011		2014
B du Plessis	2004	2011	2014
N Dongwana	2012		2015
JN Hope	2009	2011	2014
RJ Huntley	2007	2011	2014
PG Joubert	2008	2008	Retired
N Kapila	2011		2014
I Kgaboesele	2011		2014
PSC Luthuli	2005	2010	2013
N Mnxasana	2012		2015
NT Moholi	2011		2014
J Molobela	2009	2011	2014
JH Schindehütte	2011		2014
Dr S Sibisi	2012		2015
Y Waja	2010		2013

Non-executive directors' remuneration

Non-executive directors' fees effect 1 April 2011 were as follows:

Non-executive directors' fees	R per annum 2012	2011
Chairman of the Board	**1,110,000**	1,110,000
Non-executive director of the Board	**325,000**	325,000
International Board member	**449,811**	449,811
Audit Committee Chairman	**200,000**	200,000
Audit Committee member	**120,000**	120,000
Human Resource Review and Remuneration Committee Chairman	**200,000**	200,000
Human Resource Review and Remuneration Committee Member	**120,000**	120,000
Nominations Committee Chairman	**80,000**	80,000
Nominations Committee member	**60,000**	60,000
Investment and Transactions Committee Chairman	**80,000**	80,000
Investment and Transactions Committee member	**60,000**	60,000
Social Ethics and Sustainability Committee Chairman	**200,000**	200,000
Social Ethics and Sustainability Committee member	**120,000**	120,000
Independent Directors Committee Chairman	**30,000**	30,000
Independent Directors Committee member	**30,000**	30,000

Board meetings – Five scheduled per annum.

Special Board meetings fee:

- Chairman – R20,000 per meeting
- Ordinary Board member – R15,000 per meeting
- International Board member – R15,000 per meeting

Board sub-committee meetings:

- Four scheduled committee meetings held per annum by the Audit and Risk, Human Resources Review and Remuneration and Social Ethics and Sustainability committees.
- Two scheduled committee meetings held per annum by the Nominations and Investment and Transactions committees.
- Special committee meeting fee – R15,000 per meeting

Where any Board member voluntarily attends a committee meeting that they are not a member of, no fees will be payable for their attendance.

All fees will be proportion to the period in which office is held.

REMUNERATION AND BENEFITS AWARDED TO PRESCRIBED OFFICERS DURING 2012

Executive directors' remuneration

Remuneration and benefits paid and short-term incentives approved in respect of the 2012 financial year are set out in the following table:

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2012
Executive directors				
NT Moholi	**6,402,150**	**2,253,013**	**3,412,158[1]**	**12,067,321**
JH Schindehütte	**3,000,000**	**876,600**	**4,507,858[2]**	**8,384,458**
Total	**9,402,150**	**3,129,613**	**7,920,016**	**20,451,779**

[1] *Includes a restraint payment of R3,404,300.*

[2] *Includes a sign-on bonus of R4,500,000.*

2011

Executive directors

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	TCSP	Total 2011
RJ September[1]	3,691,259	–	802,399[2]	2,098,451	6,592,109
PG Nelson[1]	1,880,573	–	1,031,749[3]	1,931,703	4,844,025
Total	5,571,832	–	1,834,148	4,030,154	11,436,134

[1] *RJ September and PG Nelson resigned effective from 7 July 2010 and 25 August 2010, respectively, and therefore did not qualify for a short-term incentive.*

[2] *Includes a leave encashment at retirement of R794,764.*

[3] *Represents an employment settlement at resignation.*

Executive Committee and prescribed officers (excluding executive directors)

The aggregate remuneration and benefits paid, short-term incentives approved for the 2012 financial year are set out in the table below:

Executive Committee	Guaranteed package (GP)	Short-term incentive	Fringe and other benefits	Total 2012 R	Total 2011 R
NT Moholi				**–**	8,758,101
JA Hedberg	**–**	**–**	**–**	**–**	10,220,900
GJ Rasethaba	**2,436,780**	**551,833**	**2,436,780[1]**	**5,425,393**	4,103,052
TE Msubo	**2,853,935**	**693,232**	**1,011,787[2]**	**4,558,954**	2,219,965
TG Msimango	**–**	**–**	**–**	**–**	9,111,522
IM Fourie	**–**	**–**	**–**	**–**	8,052,632
MJ Nzeku	**3,848,278**		**–**	**3,848,278**	14,060,839
P Marais	**1,638,883**		**4,411,276[3]**	**6,050,159**	4,506,465
BC Armstrong*	**2,781,000**	**1,017,179**	**6,674,400[4]**	**10,472,579**	–
MB Sallie*	**2,622,812**	**892,759**	**6,304,572[5]**	**9,820,143**	–
JM Mavuso*	**2,261,957**	**580,458**	**5,438,520[6]**	**8,280,935**	–
DJ Fredericks	**2,825,421**	**627,525**	**4,433,344[7]**	**7,886,290**	4,508,105
JC Smit	**–**	**–**	**–**	**–**	2,327,878
Total	**21,269,066**	**4,362,986**	**30,710,679**	**56,342,732**	67,869,459

* *Appointed 1 June 2011.*

[1] *Includes a retention payment of R2,436,780 which is equivalent to 1 x guaranteed package.*

[2] *Includes a retention payment of R1,000,000.*

[3] *Represents an employment settlement of R3,178,825 and a acting allowance of R1,223,610.*

[4] *Includes a retention payment of R6,674,400 which is equivalent to 2 x guaranteed package.*

[5] *Includes a retention payment of R6,294,750 which is equivalent to 2 x guaranteed package.*

[6] *Includes a retention payment of R5,428,698 which is equivalent to 2 x guaranteed package.*

[7] *Includes a retention payment of R3,100,000 which is equivalent to 1 x guaranteed package and an acting allowance of R1,321,557.*

Executive management team

31 March 2012

Rand	Guaranteed package	Short-term incentive	Fringe and other benefits	Total 2012	Total 2011
Executive management team	**55,865,645**		**14,192,969**	**70,058,614**	92,159,401
Number of employees				**32**	33

Non-executive directors

The following table details emoluments paid to non-executive directors for services rendered:

Non-executive directors	Directors' fees	Committee and special meeting fees	Total 2012 R	Total 2011 R
PL Zim (Chairman)	**1,110,000**	**410,000**	**1,520,000**	210,791
D Barber	**–**	**–**	**–**	23,855
B du Plessis	**325,000**	**495,000**	**820,000**	925,000
NP Dongwana	**37,401**	**25,000**	**62,401**	–
JN Hope	**325,000**	**435,000**	**760,000**	815,000
RJ Huntley	**325,000**	**645,000**	**970,000**	1,031,000
PG Joubert	**135,417**	**190,000**	**325,417**	715,000
Dr VB Lawrence[1]	**–**	**–**	**–**	467,378
N Kapila[1]	**449,811**	**255,000**	**704,811**	88,549
I Kgaboesele[2]	**243,750**	**185,000**	**428,750**	–
PSC Luthuli	**325,000**	**630,000**	**955,000**	900,000
NP Mnxasana	**37,401**	**10,000**	**47,401**	–
B Molefe[3]	**–**	**–**	**–**	17,255
J Molobela[4]	**325,000**	**450,000**	**775,000**	1,387,500
S Sibisi	**37,401**	**15,000**	**52,401**	–
Dr E Spio-Garbrah[1]	**–**	**–**	**–**	37,484
Y Waja	**325,000**	**435,000**	**760,000**	617,316
Total	**4,001,181**	**4,180,000**	**8,181,181**	7,236,128

[1] *N Kapila, Dr E Spio-Garbrah and Dr VB Lawrence are foreign directors with Indian, Ghanaian and American nationalities, respectively.*
[2] *Payments for services by I Kgaboesele are paid directly to Sphere Holdings (Pty) Limited.*
[3] *Payments for services by B Molefe are paid directly to the Public Investment Corporation.*
[4] *J Molobela retired as Chairman and was re-appointed as non-executive director of the Telkom Board effective from 16 February 2011.*

Non-executive directors are not eligible to participate in the Telkom Conditional Share Plan.

Beneficial shareholding

Directors' shareholding as at 31 March 2012

	Beneficial		Non-beneficial	
Number of shares	**Direct**	**Indirect**	**Direct**	**Indirect**
Executive				
NT Moholi	**37,004**	**–**	**–**	**–**
Non-executive				
J Molobela	**267**	**–**	**–**	**–**
NP Mnxasana	**160**	**–**	**–**	**–**
Total	**37,431**	**–**	**–**	**–**

Director's shareholding as at 31 March 2011

	Beneficial		Non-beneficial	
Number of shares	Direct	Indirect	Direct	Indirect
Non-executive				
J Molobela	267	–	–	–
NP Mnxasana	160	–	–	–
Total	427		–	–

Directors' interest in contracts

The directors of the Company annually and as required declare their interest in any transaction with the Company in terms of the Companies Act of 2008. In accordance with the Companies Act of 2008, Telkom SA SOC Limited maintains a register of directors' interests in contracts.

None of the directors declared an interest in a contract during the year under review.

INTRODUCTION

The Audit and Risk Committee (ARC) presents its report for the financial year ended 31 March 2012. The report is presented in accordance with the Company's Memorandum of incorporation, the requirements of the Companies Act, No. 71 of 2008 (the Act), as well as the recommendations contained in the third King Report on Governance for South Africa (King III). Amongst others, the ARC's operations are also guided by a formal charter that is in line with the JSE Listings Requirements.

MEMBERSHIP

The membership of the committee comprised the following independent non-executive directors:

PCS Luthuli (Chairman)
B du Plessis
I Kgaboesele – Appointed 1 July 2011
NP Mnxasana – Appointed 20 February 2012
NP Dongwana – Appointed 20 February 2012

Resignations

PG Joubert – 25 August 2011 – Retired
RJ Huntley – 23 January 2012 – Stepped down – Not independent
Y Waja – 23 January 2012 – Stepped down – Not independent

In addition, the Chief Executive Officer; the Chief Financial Officer, head of internal audit, head of risk management and the external auditors are also permanent invitees to meetings.

Qualification details of the current members of the ARC are set out on pages 16 and 17.

Details of meeting attendance can be found on page 52.

DUTIES PERFORMED

During the financial year ended 31 March 2012, the committee convened six times to discharge both its statutory and Board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

- Reviewed the appropriateness of the identified significant risks and the management and control thereof;
- Discussed the Company's major risk exposures and the steps management had undertaken to mitigate them;
- Reviewed the Company's statement on internal control systems prior to endorsement by the Board; and
- Satisfied itself that the internal audit coverage plans made provision for effectively addressing the risk areas of the business.
- Considered the results of work performed by, and the conclusions of the internal audit function, in relation to:
  - Corporate Governance;
  - Risk management;
  - Financial systems, internal control and reporting; and
  - Internal financial controls;
- Assessed and evaluated the independence and effectiveness of the internal auditor functions, in accordance with its mandate;
- Assessed the effectiveness of the combined assurance forum;
- Reviewed the performance and expertise of the Chief Financial Officer;
- Responsible for the appointment of independent external auditors, retention, compensation, resignation or dismissal of the external auditors, as well as their terms of engagement and oversight of the work of the external auditors who report directly to the committee;
- Considered any material problems, reservations and observations, or any potentially contentious accounting treatments or judgements, or significant unusual transactions, or going concern issues arising from the external audit;
- Reviewed and recommended for adoption by the Board the interim and annual financial information that is publicly disclosed, including the integrated annual report;
- Reviewed the adequacy of management's corrective action taken in response to significant internal and external audit findings;
- Obtained regular updates from management regarding compliance matters;
- Obtained regular updates on the status of material open litigation and other proceedings and the related reserves;
- Reviewed the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment; and
- The committee has received reports on matters relating to ethical conduct and the prevention, detection and investigation of fraudulent activity or misconduct within Telkom Group companies, received and dealt with concerns and complaints through 'whistle-blowing' mechanisms that were reported to the committee by the head of risk management.

The committee is satisfied that it has fulfilled its obligations in respect of the Audit and Risk Committee charter.

CONCLUSION

Based on the results of the formal documented review of the Company's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Telkom audit services during the 2012 financial year and considering information and explanations given by management and discussions with the external auditor on the results of the audit, the Audit and Risk Committee has considered all significant control matters and associated action plans. Having regard to the aforementioned, nothing has come to the attention of the Audit and Risk Committee that leads it to conclude that the Company's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The Audit and Risk Committee is satisfied that Ernst & Young Inc is independent and was appointed in terms of the requirements of section 90(2) of the Companies Act, No. 71 of 2008 and nominated the re-appointment of Ernst & Young Inc. as registered auditors for the 2013 financial year.

The Audit and Risk Committee recommended the consolidated annual financial statements and the integrated report for the year ended 31 March 2012 for approval by the Board of Directors on 7 June 2012.

PCS Luthuli
Chairman of the Audit and Risk Committee

7 June 2012

Certificate from Group Company Secretary

I hereby certify in accordance with section 88(2)(e) of the Companies Act, No 71 of 2008, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

I further hereby certify that Telkom SA SOC Limited and its directors have, during the 12 months ended 31 March 2012, complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE imposed by the JSE Limited during that period.

ML Lephadi
Group Company Secretary

7 June 2012

To the members of Telkom SA SOC Limited

The directors have pleasure in submitting the annual financial statements of the Company and the Group for the year ended 31 March 2012.

NATURE OF BUSINESS

Telkom is a leading integrated communications service provider in South Africa and on the African continent.

FINANCIAL RESULTS

Loss from continuing operations attributable to owners of Telkom for the year ended 31 March 2011 was R5 million (2011: R2,571 million profit) representing basic earnings per share from continuing operations of 25.7 cents loss per share (2011: 481.2 cents earnings per share). Full details of the financial position and results of the Group are set out in the accompanying Company and Group annual financial statements.

DIVIDENDS

The ordinary dividend has been considered with reference to Telkom's current and expected future challenges, performance, debt and cash flow levels. Telkom's strategic objectives of network transformation and the building of its mobile business will see dividends being considered on an annual basis based on the performance of the Group.

Telkom has decided not to declare a dividend in respect of the financial year ended 31 March 2012. While our current financial position should allow us to fund network transformation and build our data driven mobile offering, the Board has decided that it is prudent to allow for more internally generated funding for the capital expenditures planned over the next three years. This will better position Telkom to weather uncertainties as we advance our value building strategy.

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

Particulars of the material subsidiaries of the Group are set out in notes 42 and 43 of the accompanying Group annual financial statements.

The attributable interest of the Group in the after tax earnings from continuing operations of its subsidiaries for the year ended 31 March 2012 were:

	2011 R million	**2012** **R million**
Aggregate amount of profit/ (loss) after taxation	246	**(70)**

SHARE CAPITAL

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2012, are contained in note 24 and note 22 of the accompanying Group and Company annual financial statements, respectively.

SHARE REPURCHASE

The Company did not repurchase any shares during the year under review.

BORROWING POWERS

In terms of the Company's Articles of Association, Telkom has unlimited borrowing powers subject to the restrictive financial covenants of the TL20 bond and syndicated loans.

CAPITAL EXPENDITURE AND COMMITMENTS

Details of the Company's capital expenditure on property, plant and equipment as well as intangible assets are set out in notes 11 and 12 of the accompanying Company annual financial statements, while details of the Company's capital commitments are set out in note 35.

Details of the Group's capital expenditure on property, plant and equipment as well as intangibles are set out in notes 13 and 14 of the accompanying Group annual financial statements, while details of the Group's capital commitments are set out in note 39.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Events subsequent to the balance sheet date are set out in note 45 of the accompanying Group annual financial statements and note 40 of the Company annual financial statements.

DIRECTORATE

The following changes occurred in the composition of the Board of Directors from 1 April 2011 to the date of this report:

Appointments

NT Moholi	1 April 2011
I Kgaboesele	1 July 2011
JH Schindehütte	1 August 2011
Dr S Sibisi	20 February 2012
NP Mnxasana	20 February 2012
NP Dongwana	20 February 2012

Resignation

PG Joubert	30 August 2011

The Board of Directors at the date of this report is as follows:

PL Zim	(Chairman)
NT Moholi	(Chief Executive Officer)
JH Schindehütte	(Chief Financial Officer)
B du Plessis	
JN Hope	
N Kapila	
PCS Luthuli	
RJ Huntley	
Y Waja	
J Molobela	
Dr S Sibisi	
NP Mnxasana	
NP Dongwana	
I Kgaboesele	

Details of each director may be found on pages 16 and 17 of this integrated report.

DIRECTORS' INTERESTS

At 31 March 2012, none of Telkom's directors other than NT Moholi, J Molobela and NP Mnxasana held any direct and indirect, beneficial and non-beneficial interests in the share capital of the Company. NT Moholi, J Molobela and NP Mnxasana directly held 37,004, 267 and 160 ordinary shares in Telkom, respectively.

Details of the Company Secretary's business address and the Company's registered office are set out on the inside back cover of this integrated report.

Ernst & Young Inc.
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52 Corlett Drive, Illovo
Private Bag X14
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Johannesburg, South Africa

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Fax: 00 27 (0)11 772-4000
Docex 123 Randburg
Website www.ey.com/za

Co. Reg. No. 2005/002308/21

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELKOM SA SOC LIMITED

Report on the Financial Statements

We have audited the accompanying Group and Company financial statements of Telkom SA SOC Limited set out on pages 130 to 201 and 210 to 281, which comprise the Group and Company statements of financial position as at 31 March 2012, and the Group and Company statements of comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these Group and Company financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Group and Company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group and Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Group and Company financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group and Company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Group and Company financial statements present fairly, in all material respects, the financial position of Telkom SA SOC Limited as at 31 March 2012, and of the Group and Company financial performance and the Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.

Ernst & Young Inc.

Director – Roger Hillen
Registered Auditor
Chartered Accountant (SA)
7 June 2012

Level two, AAA B-BBEE rating. As a recognised value adding enterprise, our clients are able to claim B-BBEE recognition of 156.25%

Chief Executive: Ajen Sita
A full list of Directors is available from the website.

Consolidated statement of comprehensive income

for the year ended 31 March 2012

	Notes	Restated* 2011 Rm	2012 Rm
Continuing operations			
Total revenue	4.1	33,879	**33,668**
Operating revenue	4.2	33,308	**33,079**
Other income	5	540	**579**
Operating expenses		29,443	**31,250**
Employee expenses	6.1	9,716	**8,636**
Payments to other operators	6.2	5,567	**5,484**
Selling, general and administrative expenses	6.3	5,545	**7,193**
Service fees	6.4	2,886	**2,974**
Operating leases	6.5	764	**825**
Depreciation, amortisation, impairment and write-offs	6.6	4,965	**6,138**
Results from operating activities		4,405	**2,408**
Investment income	7	213	**238**
Finance charges and fair value movements	8	1,068	**1,872**
Interest		898	**765**
Foreign exchange and fair value losses		170	**1,107**
Profit before taxation		3,550	**774**
Taxation	9	979	**595**
Profit from continuing operations		2,571	**179**
Loss from discontinued operations	10	1,229	**269**
Profit/(loss) for the year		1,342	**(90)**
Other comprehensive income			
Exchange differences on translating foreign operations		30	**(30)**
Available-for-sale investment		–	**(5)**
Defined benefit plan actuarial (losses)/gains		(741)	**65**
Defined benefit plan asset limitations		584	**–**
Income tax relating to components of other comprehensive income	11	44	**(18)**
Other comprehensive (loss)/income for the year, net of taxation		(83)	**12**
Total comprehensive income/(loss) for the year		1,259	**(78)**
Profit/(loss) attributable to:			
Owners of Telkom		1,222	**(216)**
Non-controlling interests		120	**126**
Profit/(loss) for the year		1,342	**(90)**
Total comprehensive income/(loss) attributable to:			
Owners of Telkom		1,139	**(204)**
Non-controlling interests		120	**126**
Total comprehensive income/(loss) for the year		1,259	**(78)**
Total operations			
Basic and diluted earnings/(loss) per share (cents)	12	239.9	**(42.3)**
Continuing operations			
Basic and diluted earnings per share (cents)	12	481.2	**10.4**

* *The amounts have been restated for the effect of the fixed-line business of Multi-Links Telecommunications Limited being classified as a discontinued operation.*

Consolidated statement of financial position

at 31 March 2012

	Notes	Audited 2011 Rm	2012 Rm
ASSETS			
Non-current assets		43,943	**42,362**
Property, plant and equipment	13	37,304	**36,155**
Intangible assets	14	3,965	**3,555**
Investments	16	2,103	**2,260**
Deferred expenses	17	83	**47**
Finance lease receivables	18	239	**244**
Deferred taxation	19	56	**53**
Other financial assets	22	193	**48**
Current assets		10,315	**10,206**
Inventories	20	1,121	**993**
Income tax receivable	35	105	**26**
Current portion of deferred expenses	17	10	**–**
Current portion of finance lease receivables	18	118	**128**
Trade and other receivables	21	5,503	**5,696**
Other financial assets	22	1,674	**2,195**
Cash and cash equivalents	23	1,784	**1,168**
Assets of disposal groups classified as held for sale	10	89	**–**
Total assets		54,347	**52,568**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent		29,635	**29,707**
Share capital	24	5,208	**5,208**
Treasury shares	25	(771)	**(771)**
Share-based compensation reserve	26	–	**–**
Non-distributable reserves	27	1,764	**1,887**
Retained earnings		24,467	**23,383**
Reserves of disposal groups classified as held for sale	10	(1,033)	**–**
Non-controlling interests	28	387	**434**
Total equity		30,022	**30,141**
Non-current liabilities		14,974	**12,718**
Interest bearing debt	29	8,198	**5,897**
Other financial liabilities	22	69	**26**
Employee related provisions	30	4,711	**4,880**
Non-employee related provisions	30	29	**36**
Deferred revenue	17	1,073	**1,132**
Deferred taxation	19	894	**747**
Current liabilities		8,899	**9,709**
Trade and other payables	32	4,782	**4,291**
Shareholders for dividend	36	21	**23**
Current portion of interest bearing debt	29	157	**1,289**
Current portion of employee related provisions	30	1,932	**1,652**
Current portion of non-employee related provisions	30	86	**240**
Current portion of deferred revenue	17	1,771	**1,995**
Income tax payable	35	16	**87**
Other financial liabilities	22	123	**129**
Credit facilities utilised	23	11	**3**
Liabilities of disposal groups classified as held for sale	10	452	**–**
Total liabilities		24,325	**22,427**
Total equity and liabilities		54,347	**52,568**

Consolidated statement of changes in equity

for the year ended 31 March 2012

	Share capital Rm	Treasury shares Rm	Share-based compen-sation reserve Rm	Non-distribu-table reserves Rm	Retained earnings Rm	Discon-tinued opera-tions Rm	Total Rm	Non-con-trolling interests Rm	Total equity Rm
	Attributable to equity holders of Telkom								
Balance at 1 April 2010	5,208	(1,171)	2,060	620	23,208	–	29,925	339	30,264
Total comprehensive income				1,063	1,109	(1,033)	1,139	120	1,259
Profit for the year					1,222		1,222	120	1,342
Other comprehensive income				1,063	(113)	(1,033)	(83)	–	(83)
Exchange differences on translating foreign operations (refer to note 27)				1,063		(1,033)	30		30
Net defined benefit plan losses					(113)		(113)		(113)
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners	–	400	(314)	–	(1,515)	–	(1,429)	–	(1,429)
Dividends paid					(1,515)		(1,515)		(1,515)
Increase in share-based compensation (refer to note 26)			(314)				(314)		(314)
Shares vested and re-issued (refer to note 26)		400					400		400
Transfer of iWayAfrica reserves (refer to note 27)				(75)	75		–		–
Transfer of compensation reserve to equity (refer to note 26)			(1,746)		1,746		–		–
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)				156	(156)		–		–
Contributions by and distributions to non-controlling interest									
Dividends declared (refer to note 28)							–	(72)	(72)
Balance at 31 March 2011	5,208	(771)	–	1,764	24,467	(1,033)	29,635	387	30,022
Balance at 1 April 2011	**5,208**	**(771)**	**–**	**1,764**	**24,467**	**(1,033)**	**29,635**	**387**	**30,022**
Total comprehensive income				**(57)**	**(169)**	**22**	**(204)**	**126**	**(78)**
Profit/(loss) for the year					**(216)**		**(216)**	**126**	**(90)**
Other comprehensive income				**(57)**	**47**	**22**	**12**	**–**	**12**
Exchange differences on translating foreign operations (refer to note 27)				**(52)**		**22**	**(30)**		**(30)**
Available-for-sale investment (refer to note 27)				**(5)**			**(5)**		**(5)**
Net defined benefit plan gains					**47**		**47**		**47**
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners					**(735)**	**–**	**(735)**	**–**	**(735)**
Dividends paid					**(735)**		**(735)**		**(735)**
Reserves held for sale realised on disposal of Multi-Links Telecommunications Limited (net of tax of R332 million)						**1,011**	**1,011**		**1,011**
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 27)				**205**	**(205)**		**–**		**–**
Realised gains of the Cell Captive (refer to note 27)				**(25)**	**25**		**–**		**–**
Contributions by and distributions to non-controlling interest									
Dividends declared (refer to note 28)							**–**	**(79)**	**(79)**
Balance at 31 March 2012	**5,208**	**(771)**	**–**	**1,887**	**23,383**	**–**	**29,707**	**434**	**30,141**

Consolidated statement of cash flows

for the year ended 31 March 2012

	Notes	2011 Rm	2012 Rm
Cash flows from operating activities		5,188	**5,892**
Cash receipts from customers		33,200	**32,634**
Cash paid to suppliers and employees		(25,107)	**(24,930)**
Cash generated from operations	33	8,093	**7,704**
Interest received		498	**484**
Finance charges paid	34	(635)	**(564)**
Taxation paid	35	(1,178)	**(920)**
Cash generated from operations before dividend paid		6,778	**6,704**
Dividend paid	36	(1,590)	**(812)**
Cash flows from investing activities		(4,545)	**(4,570)**
Proceeds on disposal of property, plant and equipment and intangible assets		297	**105**
Additions to property, plant and equipment and intangible assets		(4,333)	**(4,675)**
Acquisition of subsidiaries and joint venture		(9)	**–**
Additions to other investments		(500)	**–**
Cash flows from financing activities		(2,715)	**(1,923)**
Loans raised		980	**1,092**
Loans repaid		(2,399)	**(2,345)**
Finance lease capital repaid		(165)	**(177)**
Increase in net financial assets		(1,131)	**(493)**
Net decrease in cash and cash equivalents		(2,072)	**(601)**
Net cash and cash equivalents at beginning of year		3,793	**1,773**
Effect of foreign exchange rate differences on cash and cash equivalents		52	**(7)**
Net cash and cash equivalents at end of year*	23	1,773	**1,165**

** For cash flow activities on discontinued operations refer to note 10.*

1. CORPORATE INFORMATION

Telkom SA SOC Limited (Telkom) is a company incorporated and domiciled in the Republic of South Africa (South Africa), whose shares are publicly traded. The main objective of Telkom, its subsidiaries and joint ventures (the Group) is to supply telecommunication, multimedia, technology, information and other related information technology services to Telkom's customers, as well as mobile communication services, in South Africa and certain other African countries. The Group's services and products include:

- fixed-line subscription and connection services to post-paid, pre-paid and private payphone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to post-paid, pre-paid and payphones 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 centre operations and internet services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services;
- mobile communication services, including voice services, data services and handset sales through its mobile brand called 8•ta; and
- other services including directory services, through Trudon (Pty) Limited, wireless data services, through Swiftnet (Pty) Limited and internet services outside South Africa, through iWayAfrica Group.

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, 2008.

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

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value 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:

Adoption of amendments to standards and new interpretations

IFRS 7 Financial Instruments Disclosures

The amendment emphasises the link between qualitative and quantitative disclosures to enable users of financial statements to form an overall picture of the nature and extent of risks arising from financial instruments. Detailed IFRS 7 disclosures are provided in note 15.

IAS 1 Presentation of Financial Statements

The amendment requires entities to present for each component of equity, an analysis of other comprehensive income either in the statement of changes in equity or in the notes. The Group provides this analysis in note 11.

The following new standards, amendments to standards and interpretations which are mandatory for financial periods beginning on or after 1 January 2011 have been adopted and do not have any material impact on the Group:

IFRS 3 (amendment) Business Combinations – Clarification of contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)

IFRS 3 (amendment) Business Combinations – Accounting for unreplaced and voluntarily replaced share-based payment awards within a business combination

IFRS 3 (amendment) Business Combinations – Measurement options available for non-controlling interest (NCI)

IAS 27 (amendment) Consolidated and Separate Financial Statements – Transition requirements for amendments arising as a result of IAS 21 The Effects of Changes in Foreign Exchange Rates

IFRIC 14 (amendment) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Voluntary pre-paid contributions

Standards and interpretations in issue not yet adopted and not yet effective

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective. All standards are effective for annual periods beginning on or after the effective date.

IFRS 7 Financial Instruments Disclosures – Amendments enhancing disclosures about transfers of financial assets *(effective 1 July 2011)*

IFRS 7 Financial Instruments Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities *(effective 1 January 2013)*

IFRS 7 Financial Instruments Disclosures – Amendments requiring disclosures about the initial application of IFRS 9 *(effective 1 January 2015)*

IFRS 9 Financial Instruments – Classification and measurement of financial assets and financial liabilities *(effective 1 January 2015)*

IFRS 10 Consolidated Financial Statements *(effective 1 January 2013)*

IFRS 11 Joint Arrangements *(effective 1 January 2013)*

IFRS 12 Disclosure of Interests in Other Entities *(effective 1 January 2013)*

IFRS 13 Fair Value Measurements *(effective 1 January 2013)*

IAS 1 Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented *(effective 1 July 2012)*

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Standards and interpretations in issue not yet adopted and not yet effective *(continued)*

IAS 1 Presentation of Financial Statements – Amendments to clarify the requirements for comparative information *(effective 1 January 2013)*

IAS 12 Income Taxes – Limited scope amendment (recovery of underlying assets) *(effective 1 January 2012)*

IAS 16 Property, Plant and Equipment – Classification of service equipment *(effective 1 January 2013)*

IAS 19 Employee Benefits – Amended Standard resulting from the Post-Employment Benefits, Short-Term Employee Benefits and Termination Benefits projects *(effective 1 January 2013)*

IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements *(as amended in 2011) (effective 1 January 2013)*

IAS 28 Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) *(effective 1 January 2013)*

IAS 32 Financial Instruments: Presentation – Amendments to clarify tax effect of distribution to holders of equity instruments *(effective 1 January 2013)*

IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities *(effective 1 January 2014)*

Significant accounting judgements, estimates and assumptions

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 and assumptions 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 and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group are 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 estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting 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 and 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 13. 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. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimates.

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's judgement is exercised when determining whether an asset retirement obligation exists, and in determining the expected future cash flows and the discount rate used to determine its present value when the obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset. The impact is disclosed in note 30.

Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment as indicated in notes 13 and 14. 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, market changes, legal changes, operating environments 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's 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. Value in use is calculated using the discounted cash flow valuation method. 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 the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer bases and market share. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of any impairment.

In calculating value-in-use, consideration is given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in calculation of value-in-use). For start-up operations, cash flow projections for a period of longer than five years may be used if the projections are reliable and demonstrable. Management judgement is applied in assessing if these requirements are met. If such a valuation is used, it is adjusted for this increased uncertainty by using an appropriately adjusted discount rate.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Significant accounting judgements, estimates and assumptions *(continued)*

Impairment of receivables

An impairment is recognised on trade receivables that are assessed to be impaired (refer to notes 15 and 21). 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.

Customer relationship periods

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue and cost. Management makes judgements about the customer relationship period estimate based on the historical churn information. The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationships periods are accounted for as a change in accounting estimates.

Deferred taxation asset

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised. The realisation of deferred taxation 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 deferred taxation credits, management needs to determine the extent that the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised deferred taxation asset is recognised in profit or loss.

Taxation

The taxation rules and regulations in South Africa as well as the other African countries within which the Group operate are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African taxation laws to further develop through changes in South Africa's existing taxation structure as well as clarification of the existing taxation laws through published interpretations and the resolution of actual tax cases. Refer to notes 9 and 19.

Management has made a judgement that all outstanding taxation credits relating to secondary taxation on companies (STC) will be available for utilisation before the taxation rules changes from STC to withholding taxation becomes effective. The new withholding taxation on dividends is effective for dividends declared after 1 April 2012, therefore any unused taxation credits were reversed at 31 March 2012.

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 operate. 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 statement of comprehensive income and the current taxation payments.

Group entities are regularly subject to evaluation, by the relevant taxation authorities, of their historical income taxation filings and in connection with such reviews. Disputes can arise with the taxation authorities over the interpretation or application of certain taxation 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 taxation returns. Management believes that the principles applied in determining the Group's taxation obligations are consistent with the principles and interpretations of the relevant countries' taxation laws.

Deferred taxation rate

Management makes judgements on the taxation rate applicable based on the Group's expectations at reporting 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 31. 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-employment 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 provided 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 relied heavily on assumptions. The assumptions included employee turnover percentages and whether specified performance criteria would be met. Changes to these assumptions could affect the amount of expense ultimately recognised in the financial statements. The Telkom Conditional Share Plan was concluded during June 2010 after the final vesting.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant accounting judgements, estimates and assumptions *(continued)*

Leases

The Group provides customer specific solutions to certain entities using access network equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains all the significant risks and rewards of ownership of this equipment and accounts for the contracts as finance leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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 or assets, even if that right is not explicitly specified in an arrangement.

Provisions and contingent liabilities

Management's judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes 30 and 40, 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's 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 reporting date.

Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Telkom and entities (including special purpose entities) controlled by Telkom, its subsidiaries, as well as its joint ventures. Control is achieved where Telkom has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. The results of subsidiaries acquired during the year are included in profit or loss from the effective date on which control is transferred to the Group. The results of subsidiaries disposed of during the year are excluded from profit or loss from the date that control ceases.

Transactions with non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of Telkom.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Under the equity accounting method, the investment in the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the joint venture. The share of the profit of the joint venture is shown on the face of the statement of comprehensive income.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with those used by the Group.

Inter-Group transactions, balances and unrealised profit or losses on transactions between Group companies are eliminated. Unrealised profit or losses are also eliminated.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the date of acquisition. Subsequent changes in such fair values are adjusted against the consideration transferred only where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Business combinations *(continued)*

classified as debt instrument are expensed as incurred. Changes in the fair value of contingent consideration classified as equity are not recognised.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Any transaction costs that the Group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation which arises as a result of a past event, and its fair value can be measured reliably.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions, is allocated to the existing common control business combination reserve in equity.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added-tax, returns and rebates and after eliminating sales within the Group.

The Group provides fixed-line, mobile and data communication 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 is recognised when there is evidence of an arrangement, collectability is probable, 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 consideration of each component is allocated on a relative fair value basis.

Dealer incentives

The Group provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer. Revenue is recognised net of discounts when the discounts are granted to the customer.

Fixed-line

Subscriptions, connections and other usage

The Group provides telephone and data communication services under post-paid and pre-paid 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 pre-paid 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)

Pre-paid

Pre-paid 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 pre-paid products allow for the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Post-paid

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 pre-paid 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 pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services

Included in other South African revenue are directory services. Revenue is recognised when printed 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.

Deferred revenue and expenses

Activation revenue and costs are 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. Any excess of the costs over revenues is expensed immediately.

Mobile

Post-paid contract and pre-paid products

Contract products are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based of the fair value of each deliverable on a selling price stand-alone basis as a percentage of the aggregated fair value of individual deliverables.

- Revenue from the handset is recognised when the handset is delivered.
- 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 commencing on activation date. Unused airtime is deferred in full and recognised in the month of usage or on termination of the contract by the subscriber.
- Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer.
- Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires.
- Free minutes are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire.

Roaming agreements

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A pre-payment to this effect is recognised if it is probable that Telkom will obtain future economic benefits from such unused minutes.

Equipment sales

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the equipment to an end-customer by the intermediary or the expiry of the right of return.

Customer loyalty programmes

The free minutes (award credits) granted to Telkom Mobile pre-paid customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits take into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit.

Connection incentives

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.

Interest on debtors' accounts

Interest is raised on overdue accounts by using the effective interest rate method and recognised in profit or loss.

Marketing

Marketing costs are recognised as an expense when 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.

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 reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Summary of significant accounting policies *(continued)*

Taxation *(continued)*

Deferred taxation

Deferred taxation is accounted for using the statement of financial position liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxation 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 taxation 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 taxation assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related taxation benefit will be realised. In respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred income taxation 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 taxation relating to equity items or other comprehensive income is recognised directly in other comprehensive income and not in profit or loss.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when 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 reporting date.

Deferred taxation assets and deferred taxation liabilities are offset, if a legally enforceable right exists to set-off current taxation assets against current taxation liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Secondary taxation on companies

Secondary taxation on companies (STC) was provided for at a rate of 10% on the amount by which dividends declared by the Group exceeds dividends received. Previously deferred taxation on unutilised STC credits was recognised to the extent that STC payable on future dividend payments was likely to be available for set-off. The new withholding tax on dividends is effective for dividends declared on or after 1 April 2012 at a rate of 15%. All unused tax credits as at 31 March 2012 were reversed.

Property, plant and equipment

At initial recognition acquired property, plant and equipment is recognised at its 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 8•ta and the date the asset is derecognised. Idle assets continue to attract depreciation.

The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis at reporting 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 assets 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 reporting date.

Assets under construction represents freehold buildings, 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 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	1 to 9
Network equipment	
Cables	20 to 40
Switching equipment	5 to 18
Transmission equipment	5 to 18
Other	2 to 20
Support equipment	5 to 13
Furniture and office equipment	1 to 15
Data processing equipment and software	1 to 10
Other	1 to 20

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 profit or loss 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Intangible assets

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, the amortisation methods used and their useful lives are reviewed on an annual basis at reporting date.

Intangible assets with indefinite useful lives, for example goodwill, and intangible assets not yet available for use (under construction), 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.

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 profit or loss in the year in which they arise.

The expected useful lives assigned to intangible assets are:

	Years
Licences	3 to 11
Software	2 to 10
Connection incentive bonus*	2
Trademarks, copyrights and other	4 to 13

**For the connection incentive bonus intangible asset, refer to the connection incentive in the summary of significant accounting policy under revenue recognition.*

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment 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 an 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 or amortised when they are classified into this category.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss after tax is reported separately in the statement of comprehensive income.

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 costs to sell and are not depreciated subsequent to classification as held for sale. Only those assets within the measurement scope of IFRS 5 are measured in terms of IFRS 5, refer to note 10.

Impairment of property, plant and equipment and intangible assets

The Group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Summary of significant accounting policies *(continued)*

Impairment of property, plant and equipment and intangible assets *(continued)*

Intangible assets that have an indefinite useful life, for example goodwill, are tested annually for impairment.

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. The discount rate used is the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 profit or loss 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.

Repairs and maintenance

The Group expenses all costs associated with day-to-day repairs and maintenance, unless it is probable that such costs would result in 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.

Inventories

Merchandise, installation material, maintenance and network equipment inventories are stated at the lower of cost, determined on a weighted average basis and 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.

Telkom Mobile's inventory cost is determined according to the First-In-First-Out basis.

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 the 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'. Financial liabilities are classified as 'at fair value through profit or loss' or 'other financial liabilities'. The measurement of each is set out below and presented in a table in note 15.

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 reporting 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'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the future. Derivatives and embedded 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 finance charges and fair value movements for the year. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

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 the instrument to maturity. 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 profit or loss when the investments are sold or impaired as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Such assets are carried at amortised cost using the effective interest rate method. Trade receivables are subsequently measured at the original invoice amount less impairment where the effect of discounting is not material. Gains and losses are recognised in profit or loss when the assets are sold or impaired as well as through the amortisation process.

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 held for trading.

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.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Financial instruments *(continued)*

Financial liabilities at fair value through profit or loss

(continued)

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, with interest expense recognised in finance charges and fair value movements, on an effective interest rate 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

A financial guarantee contract is initially measured at fair value. It is subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, contingent liabilities and contingent assets or the amount initially recognised less, when appropriate, cumulative amortisation, recognised in accordance with IAS 18 Revenue.

Cash and cash equivalents

Cash and cash equivalents are subsequently measured at amortised cost. This comprises 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Repurchase agreements

Securities sold under repurchase agreements are not derecognised. These transactions are treated as collateralised arrangements and classified as non-trading financial liabilities and carried at amortised cost.

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans and receivables. Loans are recorded at amortised cost.

All associated finance charges are taken to the statement of comprehensive income.

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 is 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.

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 reporting 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. For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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 other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. The recoverable amount of financial assets carried 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 equity instruments classified as available-for-sale or carried at cost that are not reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed the value that would have been its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised through profit or loss.

Remeasurement of embedded derivatives

The Group assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when it first becomes party to the contract. The Group re-assesses the contract 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.

Financial instruments: Disclosures

The Group groups its financial instruments into classes of similar instruments and where disclosure is required, it discloses them by class. It also discloses information about the nature and extent of risks arising from its financial instruments as indicated in note 15.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

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 reporting 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated to ZAR at the rate of exchange prevailing at the reporting date and their profits and losses are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of the foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Treasury shares

Where the Group acquires, or in substance acquires, its own shares, such shares are measured at acquisition 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.

Where the Group 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 is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the Group itself or by its shareholders or was settled by the Group itself or its shareholders.

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 IAS 17 to determine if the arrangement should be recognised as a finance lease or operating lease. This also applied when assessing indefeasible rights to use (IRUs).

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 profit or loss 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 statement of financial position. Lease finance costs are amortised in profit or loss over the lease term using the interest rate implicit in the lease. 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 profit or loss over the term of the lease.

Lessor

Operating lease revenue is recognised in profit or loss on a straight-line basis over the lease term.

Assets held under a finance lease are recognised in the statement of financial position 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 reported in the statement of financial position 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 a defined benefit asset 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 in the current period and no loss is recognised solely as a result of an actuarial gain in the current period.

The Group accounts for actuarial gains and losses recognised directly in other comprehensive income in the period in which they occur. The Group believes that recognising actuarial gains and losses in other comprehensive income results in better disclosures in the statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Summary of 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 entitlement is provided for over the period that the leave accrues and is subject to a cap of 22 days.

Voluntary employee severance packages

Voluntary employee severance package costs are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Voluntary employee severance package 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.

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 reporting date of the number of equity instruments that are expected to vest. The scheme came to an end with the last vesting in June 2010.

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.

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 reporting 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.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3. SEGMENT INFORMATION

The Group's reporting segments are business units that are separately managed.

The Executive Committee assesses the performance of the operating segments based on a measure of EBITDA. Interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. The results of discontinued operations are not included in the measure of EBITDA.

The Group consists of two reportable segments, namely Telkom Fixed-line and Telkom Mobile.

The Telkom Fixed-line segment provides fixed-line access, fixed-mobile and data communications services through Telkom.

The Telkom Mobile segment provides mobile voice services, data services and handset sales through 8•ta.

The Other category is a reconciling item which is split geographically between International and South Africa.

The International category provides internet services outside South Africa, through the iWayAfrica Group.

The South African category includes the Trudon Group, Swiftnet, Data Centre Operations and the Group's Corporate Centre.

Comparative information has been restated to reflect the internal restructuring between the Telkom Fixed-line segment and the Corporate Centre which included moving the divisional human resource and finance functions from the Telkom Fixed-line segment to the Corporate Centre to align roles and responsibilities.

Comparatives have been restated to show all of Multi-Links Telecommuncations Limited's (Multi-Links) operations as discontinued operations. Refer to note 10 for Multi-Links' results.

	Restated 2011 Rm	2012 Rm
Consolidated operating revenue	33,308	**33,079**
Telkom Fixed-line	31,533	**30,638**
Telkom Mobile	81	**1,200**
Other	3,030	**3,160**
International	413	**368**
South African	2,617	**2,792**
Elimination of inter-segmental revenue	(1,336)	**(1,919)**
Consolidated operating profit	4,446	**2,810**
Telkom Fixed-line	7,458	**7,232**
Telkom Mobile	(1,149)	**(2,644)**
Other	(1,809)	**(1,728)**
International	(166)	**(89)**
South African	(1,643)	**(1,639)**
Elimination of inter-segmental transactions	(54)	**(50)**
Reconciliation		
Adjusted EBIT for reportable segments	4,446	**2,810**
Profit on disposal of subsidiairy	–	**167**
Impairment of property, plant and equipment and intangible assets	(41)	**(569)**
Operating profit	4,405	**2,408**
Investment income	213	**238**
Finance charges and fair value movement	(1,068)	**(1,872)**
Profit before taxation and discontinued operations	3,550	**774**

	Restated 2011 Rm	2012 Rm
3. SEGMENT INFORMATION *(continued)*		
Other segment information		
Capital expenditure for property, plant and equipment*	4,110	**3,970**
Telkom Fixed-line	2,454	**2,898**
Telkom Mobile	1,475	**890**
Other	181	**182**
International	10	**7**
South African	171	**175**
* *Refer to note 13.*		
Capital expenditure for intangible assets**	431	**813**
Telkom Fixed-line	381	**253**
Telkom Mobile	–	**482**
Other	50	**78**
International	1	**1**
South African	49	**77**
** *Refer to note 14.*		
Depreciation and amortisation***	4,738	**5,315**
Telkom Fixed-line	3,966	**4,375**
Telkom Mobile	46	**190**
Other	717	**747**
International	50	**44**
South African	667	**703**
Elimination of inter-segmental transactions	9	**3**

*** *Refer to note 6.*

	Restated 2011 Rm	2012 Rm
3. SEGMENT INFORMATION *(continued)*		
Other segment information *(continued)*		
Asset impairment and write-offs*	227	**823**
Telkom Fixed-line	170	**206**
Telkom Mobile	–	**29**
Other	58	**588**
International	41	**569**
South African	17	**19**
Elimination of intersegmental transactions	(1)	**–**
* *Refer to note 6.*		
Voluntary employee severance packages cost	739	**30**
Geographical information		
Consolidated operating revenue	33,308	**33,079**
South Africa	32,912	**32,715**
Other African countries	396	**364**
The following is the analysis of the Group's revenue from its major products and services:	33,308	**33,079**
Subscriptions, connections and other usage	6,763	**6,900**
Traffic	12,045	**11,078**
Interconnection	1,679	**1,753**
Data	10,774	**10,362**
Mobile	81	**1,200**
Sundry revenue	1,966	**1,786**
Non-current assets*	41,541	**39,954**
South Africa	40,772	**39,950**
Other African countries	769	**4**

* *Non-current assets exclude other financial assets, deferred taxation asset, investments and Telkom Pension Fund assets included in deferred expenses.*

		Restated 2011 Rm	2012 Rm
4.	**REVENUE**		
4.1	**Total revenue**	33,879	**33,668**
	Operating revenue	33,308	**33,079**
	Other income (excluding profit on disposal of property, plant and equipment, intangible assets, investments and profit on disposal of subsidiary, refer to note 5)	358	**351**
	Investment income (refer to note 7)	213	**238**
4.2	**Operating revenue***	33,308	**33,079**
	Telkom Fixed-line	31,533	**30,638**
	Telkom Mobile	81	**1,200**
	Other	3,030	**3,160**
	International	413	**368**
	South Africa	2,617	**2,792**
	Elimination of inter-segmental revenue	(1,336)	**(1,919)**

Operating revenue decreased mainly due to lower traffic revenue as a result of mobile substitution and competition from Value-Added Network Services and lower data revenue as a result of the inclusion of the revenue generated during the 2010 FIFA World Cup in the prior year, offset by an increase in mobile revenue.

** For a breakdown of the Group's revenue from its major products and services, refer to note 3.*

		Restated 2011 Rm	2012 Rm
5.	**OTHER INCOME**	540	**579**
	Other income (included in Total revenue, refer to note 4)	358	**351**
	Interest received from trade receivables	285	**245**
	Sundry income	73	**106**
	Profit on disposal of property, plant and equipment and intangible assets	182	**53**
	Profit on disposal of investments	–	**8**
	Profit on disposal of subsidiary	–	**167**

The decrease in the profit on disposal of assets is mainly due to a finance lease arrangement relating to indefeasible rights of use (IRUs) in respect of the S3SW and EIG cable system entered into in the prior year resulting in the derecognition of those assets.

Multi-Links Telecommunications Limited was sold for USD300. The profit on disposal of subsidiary is due to the carrying amount of total liabilities exceeding total assets.

	Restated 2011 Rm	2012 Rm
6. OPERATING EXPENSES		
Operating expenses comprise:		
6.1 Employee expenses	9,716	**8,636**
Salaries and wages	7,058	**6,987**
Medical aid contributions	19	**18**
Retirement contributions	580	**575**
Post-retirement pension and retirement fund (refer to note 31)	(160)	**(88)**
Current service cost	5	**5**
Interest cost	670	**737**
Expected return on plan assets	(783)	**(830)**
Curtailment gain	(52)	**–**
Post-retirement medical aid (refer to notes 30 and 31)	425	**470**
Current service cost	115	**107**
Interest cost	588	**569**
Expected return on plan asset	(237)	**(208)**
Curtailment (gain)/loss	(41)	**2**
Telephone rebates (refer to notes 30 and 31)	67	**56**
Current service cost	7	**7**
Interest cost	50	**47**
Past service cost	2	**2**
Curtailment loss	8	**–**
Share-based compensation expense (refer to note 26)	86	**–**
Other benefits*	2,076	**1,125**
Employee expenses capitalised	(435)	**(507)**

* *Other benefits include skills development, annual leave, performance incentive, service bonuses and voluntary employee severance packages costs.*

The share-based compensation expense has decreased by R86 million due to the final vesting in June 2010.

Other benefits decreased mainly as a result of the voluntary employee severance packages expenses which decreased from R739 million in 2011, to only R30 million in the current year.

	Restated 2011 Rm	2012 Rm
6.2 Payments to other operators	5,567	**5,484**

Payments to other network operators consist of expenses in respect of interconnection with other network operators.

	Restated 2011 Rm	2012 Rm
6.3 Selling, general and administrative expenses	5,545	**7,193**
Selling and administrative expenses	1,510	**1,588**
Maintenance	2,428	**2,684**
Marketing	933	**1,059**
Mobile direct costs and dealer incentives	78	**1,019**
Fixed-line dealer incentives	132	**153**
Impairment of receivables (refer to note 21)	464	**690**

The increase is mainly attributable to an increase in mobile direct costs incurred with other network operators as well as the increase in impairment of receivables.

Maintenance costs increased due to higher expenditure on repairs resulting from copper theft incidents and higher maintenance on the core cable due to a drive to decrease the high fault rate.

Included in mobile direct costs is amortisation of R43 million (2011: RNil million) relating to the connection incentive bonus (refer to note 14).

		Restated 2011 Rm	2012 Rm
6.	**OPERATING EXPENSES** *(continued)*		
6.4	**Service fees**	2,886	**2,974**
	Facilities and property management	1,468	**1,505**
	Consultancy services	360	**506**
	Security and other	1,004	**895**
	Auditors' remuneration	54	**68**
	Included in consultancy services are services for the Next Generation Network transformation program.		
6.5	**Operating leases***	764	**825**
	Land and buildings	239	**331**
	Transmission and data lines	20	**19**
	Equipment	52	**30**
	Vehicles	453	**445**
	** Operating lease commitments are disclosed in note 39.*		
6.6	**Depreciation, amortisation, impairment and write-offs**	4,965	**6,138**
	Depreciation of property, plant and equipment	4,005	**4,608**
	Amortisation of intangible assets	733	**707**
	Impairment of property, plant and equipment and intangible assets	41	**569**
	Write-offs of property, plant and equipment and intangible assets	186	**254**

As a result of rolling out of the Next Generation Network transformation programme, the Group re-assessed the useful lives of certain individual legacy equipment. This had the effect of increasing depreciation expense for the year ended 31 March 2012 by R605 million (2011: R112 million). Depreciation for each year of the remaining useful lives of the individually re-assessed equipment is expected to be similarly affected by this change in estimate.

Included in impairment of property, plant and equipment and intangible assets is an impairment charge relating to iWayAfrica of R442 million (2011: RNil million) on goodwill and R127 million (2011: R41 million) on non-current assets.

		2011 Rm	2012 Rm
7.	**INVESTMENT INCOME**	213	**238**
	Interest income	212	**229**
	Dividend income from investments	–	**7**
	Equity income from joint venture	1	**2**

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss.

		Restated 2011 Rm	2012 Rm
8.	**FINANCE CHARGES AND FAIR VALUE MOVEMENTS**	1,068	**1,872**
	Finance charges on interest bearing debt*	898	**765**
	Local debt	1,012	**859**
	Foreign debt	3	**–**
	Less: Finance charges capitalised	(117)	**(94)**
	Foreign exchange losses and fair value movement	170	**1,107**
	Foreign exchange losses	43	**1,320**
	Fair value adjustments on derivative instruments	127	**(213)**
	Capitalisation rate for borrowing costs (%)	11.4	**10.8**

Included in finance charges is an amount of R763 million (2011: R895 million), which relates to interest expense on financial liabilities not measured at fair value through profit or loss.

Foreign exchange losses increased significantly due to an amount of R1,292 million, which relates to the cumulative amount of foreign exchange differences previously recognised in other comprehensive income, now realised in profit or loss due to the disposal of Multi-Links Telecommunications Limited.

Fair value adjustments on derivative instruments were due to currency fluctuations and lower interest rates impacting on forward exchange contracts, cross currency swaps and interest rate swap agreements, as well as the growth in the assets held by the Cell Captive.

** For interest bearing debt movement, refer to note 29.*

		Restated 2011 Rm	2012 Rm
9.	**TAXATION**	979	**595**
	South African normal company taxation	722	**1,026**
	Current taxation	938	**1,055**
	Overprovision for prior year	(216)	**(29)**
	Deferred taxation (refer to note 19)	97	**(494)**
	Capital allowances	38	**(516)**
	Provision other allowances	39	**(520)**
	Underprovision prior year	28	**2**
	Tax loss	(1)	**526**
	Temporary difference – secondary taxation on companies (STC) taxation credits (raised)/reversed	(7)	**14**
	Secondary taxation on companies	157	**70**
	Foreign taxation	3	**(7)**

The decrease in deferred taxation is primarily as a result of the accelerated depreciation on property, plant and equipment and an increase in provisions and the realisation of foreign exhange losses on the sale of Multi-Links Telecommunications Limited of R332 million (2011: RNil million), offset by the STC credit reversal.

The decrease in STC is due to the lower dividend paid during the year.

STC was provided for at a rate of 10% on the amount by which dividends declared by Telkom exceeded dividends received. The new withholding taxation on dividends is effective for dividends declared on or after 1 April 2012 at a rate of 15%.
All unutilised STC credits as at 31 March 2012 were reversed.

	Restated 2011 Rm	2012 Rm
9. TAXATION *(continued)*		
Reconciliation of taxation rate	%	**%**
Effective rate	30.8	**76.7**
South African normal rate of taxation	28.0	**28.0**
Adjusted for:	2.8	**48.7**
Exempt income	(3.8)	**(23.8)**
Disallowable expenditure*	6.1	**68.5**
Foreign taxation	0.1	**(0.9)**
Taxation losses not utilised	0.1	**–**
Other adjustments	1.4	**(2.3)**
Underprovision for prior years	(5.8)	**(3.6)**
Secondary taxation on companies taxation credits (raised)/reversed	(0.2)	**1.8**
Secondary taxation on companies taxation charge	4.9	**9.0**

The significant increase in the effective taxation rate and adjustments are mainly due to a lower profit before taxation together with a material amount of disallowable expenditure and exempt income. Included in disallowable expenditure are the impairment of iWayAfrica, the realisation of foreign exchange differences due to the disposal of Multi-Links Telecommunications Limited (Multi-Links) and certain non-deductible expenses. Included in exempt income are the profit on sale of Multi-Links and the earnings for the year of the Cell Captive.

** Included in the 6.1% in the 2011 financial year is the effect of 2.4% relating to the ring fencing of foreign entity losses.*

10. DISCONTINUED OPERATIONS

Multi-Links Telecommunications Limited (Multi-Links)

On 26 November 2010, Telkom announced that the Board had mandated management to review options for the exit of the CDMA business of Multi-Links in Nigeria.

On 10 June 2011, the Telkom Board decided to stop funding Multi-Links after the deal to sell the CDMA business of Multi-Links to Visafone Communications fell through as a result of certain conditions precedent to the transaction not being met.

On 26 June 2011, the Telkom Board made a decision to sell the entire issued share capital of Multi-Links to HIP Oils Topco Limited. The sale was conditional on, *inter alia,* regulatory approvals. The entire business was classified as held for sale at this date.

Multi-Links' assets and liabilities were remeasured to the lower of carrying amount and fair value less costs to sell at the date of held for sale classification, 26 June 2011, and the effective date of disposal 3 October 2011.

	Restated 2011 Rm	2012 Rm
Analysis of the results of the discontinued operations:		
Revenue*	1,180	**158**
Expenses*	(2,188)	**(427)**
Loss before taxation of the discontinued operations	(1,008)	**(269)**
Taxation	(6)	**–**
Loss after taxation of the discontinued operations	(1,014)	**(269)**
After-tax loss recognised on the remeasurement of assets of disposal group to fair value less costs to sell	(215)	**–**
Pre-tax loss recognised on the remeasurement of assets of disposal group to fair value less costs to sell**	(215)	**–**
Taxation	–	**–**
Loss for the year from the discontinued operations	(1,229)	**(269)**

** Revenue comprises operating revenue, other income and investment income. Expenses comprises operating expenses, finance charges and impairment of R198 million (2011: R238 million).*

***For the 2012 financial year, the carrying amount and fair value less costs to sell were both negative, thus limited to nil.*

		2011 Rm	2012 Rm
10.	**DISCONTINUED OPERATIONS** *(continued)*		
	Multi-Links Telecommunications Limited (Multi-Links) *(continued)*		
	The major classes of assets and liabilities of the business classified as a disposal group:		
	Assets	89	**–**
	Property, plant and equipment	29	**–**
	Inventories	13	**–**
	Trade and other receivables	23	**–**
	Cash and cash equivalents	14	**–**
	Deferred expenses	10	**–**
	Liabilities	452	**–**
	Interest bearing debt	7	**–**
	Non-current portion of provisions	5	**–**
	Current portion of provisions	2	**–**
	Trade and other payables	367	**–**
	Current portion of deferred revenue	18	**–**
	Credit facilities utilised	53	**–**
	Reserves of disposal groups classified as held for sale		
	Exchange differences on translating the disposal group (included in other comprehensive income)	(1,033)	**–**
	The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
	Operating cash flows	(607)	**(75)**
	Investing cash flows	(118)	**(21)**
	Financing cash flows	693	**143**
	Total cash (outflow)/inflow*	(32)	**47**
	** Cash flows included for 2012 are up to 3 October 2011.*		
11.	**TAXATION EFFECTS OF OTHER COMPREHENSIVE INCOME**		
	Tax effects relating to each component of other comprehensive income		
	Exchange differences on translating foreign operations	30	**(30)**
	Tax effect of exchange differences on translating foreign operations	–	**–**
	Net foreign currency translation differences for foreign operations	30	**(30)**
	Available-for-sale investment	–	**(5)**
	Tax effect of available-for-sale investment	–	**–**
	Net available-for-sale investment	–	**(5)**
	Defined benefit plan actuarial (losses)/gains	(741)	**65**
	Tax effect of defined benefit plan actuarial balance	207	**(18)**
	Net defined benefit plan actuarial (losses)/gains	(534)	**47**
	Defined benefit plan asset limitations	584	**–**
	Tax effect of defined benefit plan asset limitations	(163)	**–**
	Net defined benefit plan asset limitations	421	**–**
	Other comprehensive (loss)/income for the year before taxation	(127)	**30**
	Tax effect of other comprehensive income for the year	44	**(18)**
	Other comprehensive (loss)/income for the year, net of taxation	(83)	**12**

		Restated 2011	2012
12.	**EARNINGS PER SHARE**		
	Total operations		
	Basic and diluted earnings/(loss) per share (cents)	239.9	**(42.3)**
	The calculation of earnings per share is based on a loss attributable to equity holders of Telkom of R216 million (2011: profit of R1,222 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Headline earnings and diluted headline earnings per share (cents)**	332.4	**310.8**
	The calculation of headline earnings per share is based on headline earnings of R1,587 million (2011: R1,693 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Continuing operations		
	Basic and diluted earnings per share (cents)	481.2	**10.4**
	The calculation of earnings per share is based on a profit attributable to equity holders of Telkom of R53 million (2011: R2,451 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Headline earnings and diluted headline earnings per share (cents)**	484.8	**324.7**
	The calculation of headline earnings per share is based on headline earnings of R1,658 million (2011: R2,469 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Discontinued operations		
	Basic and diluted loss per share (cents)	(241.3)	**(52.7)**
	The calculation of earnings per share is based on loss attributable to equity holders of Telkom of R269 million (2011: R1,229 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Headline loss and diluted headline loss per share (cents)**	(152.4)	**(13.9)**
	The calculation of headline earnings per share is based on headline loss of R71 million (2011: R776 million) and 510,593,816 (2011: 509,311,296) weighted average number of ordinary shares in issue*.		
	Reconciliation of weighted average number of ordinary shares:		
	Ordinary shares in issue (refer to note 24)	520,783,900	**520,783,900**
	Weighted average number of treasury shares (refer to note 25)	(11,472,604)	**(10,190,084)**
	Weighted average number of shares outstanding	509,311,296	**510,593,816**

** The Telkom Conditional Share Plan was concluded with a final vesting in June 2010, therefore the weighted average number of shares was not adjusted for expected future vesting of shares allocated to employees under this plan. Due to the plan being concluded, there is no further dilutive effect on basic earnings per share.*

***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 3/2009 issued in this regard.*

		Gross Rm	Net * Rm
12.	**EARNINGS PER SHARE** *(continued)*		
	Total operations		
	2012		
	Reconciliation between earnings and headline earnings:		
	Loss from total operations		**(90)**
	Non-controlling interests		**(126)**
	Loss as reported		**(216)**
	Profit on disposal of property, plant and equipment and intangible assets	**(53)**	**(43)**
	Profit on disposal of subsidiary	**(167)**	**(167)**
	Foreign exchange differences realised on disposal of subsidiary	**1,292**	**1,063**
	Impairment loss on property, plant and equipment and intangible assets	**767**	**767**
	Write-offs of property, plant and equipment and intangible assets	**254**	**183**
	Headline earnings		**1,587**
	2011		
	Reconciliation between earnings and headline earnings:		
	Profit from total operations		1,342
	Non-controlling interests		(120)
	Earnings as reported		1,222
	Profit on disposal of property, plant and equipment and intangible assets	(182)	(157)
	Impairment loss on property, plant and equipment and intangible assets	494	494
	Write-offs of property, plant and equipment and intangible assets	186	134
	Headline earnings		1,693
	Continuing operations		
	2012		
	Reconciliation between earnings and headline earnings:		
	Profit from continuing operations		**179**
	Non-controlling interests		**(126)**
	Earnings from continuing operations attributable to equity holders of Telkom		**53**
	Profit on disposal of property, plant and equipment and intangible assets	**(53)**	**(43)**
	Profit on disposal of subsidiary	**(167)**	**(167)**
	Foreign exchange differences realised on disposal of subsidiary	**1,292**	**1,063**
	Impairment loss on property, plant and equipment and intangible assets	**569**	**569**
	Write-offs of property, plant and equipment and intangible assets	**254**	**183**
	Headline earnings		**1,658**

		Gross Rm	Net * Rm
12.	**EARNINGS PER SHARE** *(continued)*		
	Continuing operations *(continued)*		
	2011		
	Reconciliation between earnings and headline earnings:		
	Profit from continuing operations		2,571
	Non-controlling interests		(120)
	Earnings from continuing operations attributable to equity holders of Telkom		2,451
	Profit on disposal of property, plant and equipment and intangible assets	(182)	(157)
	Impairment loss on property, plant and equipment and intangible assets	41	41
	Write-offs of property, plant and equipment and intangible assets	186	134
	Headline earnings		2,469
	Discontinued operations		
	2012		
	Reconciliation between earnings and headline earnings:		
	Loss from discontinued operations		**(269)**
	Non-controlling interests		**–**
	Loss from discontinued operations attributable to equity holders of Telkom		**(269)**
	Impairment loss on property, plant and equipment and intangible assets	**198**	**198**
	Headline loss		**(71)**
	2011		
	Reconciliation between earnings and headline earnings:		
	Loss from discontinued operations		(1,229)
	Non-controlling interests		–
	Loss from discontinued operations attributable to equity holders of Telkom		(1,229)
	Impairment loss on property, plant and equipment and intangible assets	453	453
	Headline loss		(776)

** Net of tax and non-controlling interest.*

		2011 Cost Rm	2011 Accumulated depreciation and impairment Rm	2011 Carrying value Rm	**2012 Cost Rm**	**2012 Accumulated depreciation and impairment Rm**	**2012 Carrying value Rm**
13.	**PROPERTY, PLANT AND EQUIPMENT**						
	Freehold land and buildings	5,662	(2,481)	3,181	**5,898**	**(2,671)**	**3,227**
	Leasehold buildings	557	(424)	133	**553**	**(426)**	**127**
	Network equipment	63,611	(34,619)	28,992	**63,507**	**(34,683)**	**28,824**
	Support equipment	4,031	(2,764)	1,267	**3,751**	**(2,628)**	**1,123**
	Furniture and office equipment	415	(324)	91	**328**	**(255)**	**73**
	Data processing equipment and software	5,611	(3,916)	1,695	**5,440**	**(4,038)**	**1,402**
	Under construction	2,234	(483)	1,751	**1,206**	**(11)**	**1,195**
	Other	750	(556)	194	**755**	**(571)**	**184**
		82,871	(45,567)	37,304	**81,438**	**(45,283)**	**36,155**

Fully depreciated assets with a cost of R2,509 million (2011: R967 million) were derecognised in the 2012 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 R104 million (2011: R122 million) has been pledged as security. Details of the loans are disclosed in note 29.

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The carrying amounts of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year Rm	Transfers to disposal groups Rm	Additions* Rm	Transfers** Rm	Foreign currency translation Rm	Impairment, write offs and reversals*** Rm	Disposals Rm	Depreciation*** Rm	Carrying value at end of year Rm
2012									
Freehold land and buildings	**3,181**	**–**	**197**	**124**	**–**	**(37)**	**(3)**	**(235)**	**3,227**
Leasehold buildings	**133**	**–**	**–**	**–**	**–**	**(2)**	**–**	**(4)**	**127**
Network equipment	**28,992**	**–**	**2,578**	**1,182**	**6**	**(253)**	**(127)**	**(3,554)**	**28,824**
Support equipment	**1,267**	**–**	**108**	**31**	**–**	**10**	**–**	**(293)**	**1,123**
Furniture and office equipment	**91**	**–**	**2**	**1**	**–**	**(4)**	**–**	**(17)**	**73**
Data processing equipment and software	**1,695**	**–**	**171**	**35**	**–**	**(57)**	**–**	**(442)**	**1,402**
Under construction	**1,751**	**–**	**932**	**(1,418)**	**1**	**(71)**	**–**	**–**	**1,195**
Other	**194**	**–**	**34**	**28**	**–**	**(4)**	**–**	**(68)**	**184**
	37,304	**–**	**4,022**	**(17)**	**7**	**(418)**	**(130)**	**(4,613)**	**36,155**
2011									
Freehold land and buildings	3,062	(2)	215	140	(5)	(2)	–	(227)	3,181
Leasehold buildings	150	–	1	–	–	(1)	–	(17)	133
Network equipment	29,547	(83)	2,034	1,105	(104)	(280)	(167)	(3,060)	28,992
Support equipment	1,394	–	123	55	–	(25)	–	(280)	1,267
Furniture and office equipment	109	–	8	(8)	–	–	(1)	(17)	91
Data processing equipment and software	1,800	(21)	264	112	(25)	(37)	–	(398)	1,695
Under construction	1,627	(21)	1,677	(1,423)	(38)	(71)	–	–	1,751
Other	249	–	11	10	–	(8)	(1)	(67)	194
	37,938	(127)	4,333	(9)	(172)	(424)	(169)	(4,066)	37,304

The Group does not have temporarily idle property, plant and equipment.

A major portion of additions is capital expenditure that relates to the expansion of existing networks and services and mobile cellular services. The balance contributes to the Next Generation Network transformation programme, submarine cable system, network evolution initiatives and sustainment programmes.

Property, plant and equipment with a closing carrying value of RNil million (2011: R127 million) was transferred to 'Assets of disposal groups classified as held for sale' due to Multi-Links Telecommunications Limited being classified as a disposal group.

Impairment of property, plant and equipment was mainly as a result of outdated technologies as well as impairment of iWayAfrica Group property, plant and equipment of R75 million (2011: RNil million).

An amount of R40 million (2011: R39 million) under property, plant and equipment disposals relates to the effective sale of Customer Premises Equipment in terms of a lease.

* *Included in the property, plant and equipment additions is R51 million (2011: RNil million) that relates to donation in kind received of two base station controllers, which were installed and capitalised by Telkom Mobile.*

** *The Group has 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's judgement and on facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of R17 million (2011: R9 million) were reclassified from property, plant and equipment to intangible assets in the current year.*

*** *Included in the depreciation and impairment charge is R5 million (2011: R41 million) and R196 million (2011: R240 million), respectively, relating to the Multi-Links discontinued operations (refer to note 14 for valuation key assumptions).*

Full details of land and buildings are available for inspection at the registered office of Telkom SA SOC Limited.

	2011 Cost Rm	2011 Accumulated amortisation and impairment Rm	2011 Carrying value Rm	2012 Cost Rm	2012 Accumulated amortisation and impairment Rm	2012 Carrying value Rm
14. INTANGIBLE ASSETS						
Goodwill	3,134	(2,685)	449	**588**	**(517)**	**71**
Trademarks, copyrights and other	632	(465)	167	**533**	**(385)**	**148**
Licences	53	(53)	–	**16**	**(16)**	**–**
Software	8,124	(4,992)	3,132	**8,321**	**(5,329)**	**2,992**
Connection incentive bonus	–	–	–	**180**	**(43)**	**137**
Under construction	217	–	217	**207**	**–**	**207**
	12,160	(8,195)	3,965	**9,845**	**(6,290)**	**3,555**

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Foreign currency translation Rm	Impairment and write-offs Rm	Disposals Rm	Amortisation Rm	Carrying value at end of year Rm
2012								
Goodwill	**449**	**–**	**–**	**64**	**(442)**	**–**	**–**	**71**
Trademarks, copyrights and other	**167**	**68**	**(1)**	**32**	**(51)**	**–**	**(67)**	**148**
Software	**3,132**	**394**	**199**	**–**	**(99)**	**–**	**(634)**	**2,992**
Connection incentive bonus	**–**	**180**	**–**	**–**	**–**	**–**	**(43)**	**137**
Under construction	**217**	**171**	**(181)**	**–**	**–**	**–**	**–**	**207**
	3,965	**813**	**17**	**96**	**(592)**	**–**	**(744)**	**3,555**
2011								
Goodwill	477	–	–	(28)	–	–	–	449
Trademarks, copyrights and other	299	31	1	(10)	(41)	(2)	(111)	167
Software	3,387	195	171	5	(4)	–	(622)	3,132
Under construction	175	205	(163)	–	–	–	–	217
	4,338	431	9	(33)	(45)	(2)	(733)	3,965

There are no intangible assets whose title are restricted, or that have been pledged as security for liabilities at 31 March 2012.

Intangible assets that are material to the Group consist of Software, Copyrights and Trademarks whose average remaining amortisation period is 4.3 years (2011: 4.5 years).

The connection incentive bonus is a bonus paid to dealers on the connection of the initial subscriber contract in respect of a specific tariff plan, in accordance with the provision of the Incentive Notice Letter. The connection incentive bonus of R180 million (2011: RNil million) is recognised as an intangible asset and amortised over the contract period. The amortisation of R43 million (2011: RNil million) is charged to selling, general and administrative expenses.

No intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Approximately R438 million (2011: R135 million) of additions relate to externally acquired intangible assets, R375 million (2011: R264 million) relates to internal developments.

Included in the impairment charge is R442 million (2011: RNil million) on goodwill and R52 million (2011: R41 million) on other intangible assets relating to the iWayAfrica Group.

14. INTANGIBLE ASSETS *(continued)*

Valuation key assumptions

For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs). A CGU 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. Each trading company within the Group represents a separate CGU. The Group reviews goodwill for impairment annually, or whenever there are impairment indicators, by comparing the recoverable amounts of the CGU to the carrying amounts.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a five to ten-year period. Cash flows beyond the five to ten-year period are extrapolated using the estimated growth rates stated below.

Goodwill acquired through business combinations has been allocated to the CGU as follows:

- iWayAfrica Group

The key assumptions used for value in use calculations are as follows:

	iWayAfrica	
	2011	**2012**
Gross margin %	34 – 47	**27 – 30**
Growth rate %	2	**2**
Discount rate %	12.34	**13.87**

Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

Growth rates

The growth rates are determined based on forward looking growth rates of the entities, and they reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

Discount rates

The discount rates used are post-tax and reflect specific risks relating to the relevant CGU.

Impairment test

iWayAfrica Group

Goodwill for the iWayAfrica Group was tested for impairment on 30 September 2011 and 31 March 2012, which resulted in an impairment charge of R442 million (2011: RNil million) and RNil million (2011: RNil million), respectively, for the current year. The carrying amount for goodwill as at 31 March 2012 was RNil million (2011: R379 million).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of iWayAfrica, management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations. The Group has loans and other receivables, and cash and short-term deposits that arise directly from its operations. The Group also enters into derivative transactions as hedging instruments.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework for the Group. The financial risk committee provides assurance to the Group's senior management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision.

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 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 exampl,e 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, cross 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:

	Notes	At fair value through profit or loss Held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
2012							
Classes of financial instruments per statement of financial position							
Assets		2,482	–	2,009	6,890	11,381	11,381
Investments*	16	2,248	–	–	–	2,248	2,248
Trade and other receivables**	21	–	–	–	5,350	5,350	5,350
Other financial assets	22	234	–	2,009	–	2,243	2,243
Forward exchange contracts		193	–	–	–	193	193
Cross currency swaps		41	–	–	–	41	41
Repurchase agreements		–	–	2,009	–	2,009	2,009
Finance lease receivables	18	–	–	–	372	372	372
Cash and cash equivalents	23	–	–	–	1,168	1,168	1,168
Liabilities		(155)	(11,503)	–	–	(11,658)	(12,592)
Interest bearing debt	29	–	(7,186)	–	–	(7,186)	(8,120)
Trade and other payables	32	–	(4,291)	–	–	(4,291)	(4,291)
Shareholders for dividend	36	–	(23)	–	–	(23)	(23)
Other financial liabilities	22	(155)	–	–	–	(155)	(155)
Interest rate swaps		(50)	–	–	–	(50)	(50)
Forward exchange contracts		(105)	–	–	–	(105)	(105)
Credit facilities utilised	23	–	(3)	–	–	(3)	(3)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Notes	At fair value through profit or loss Held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
2011							
Classes of financial instruments per statement of financial position							
Assets		2,288	–	1,673	7,457	11,418	11,418
Investments*	16	2,094	–	–	–	2,094	2,094
Trade and other receivables**	21	–	–	–	5,316	5,316	5,316
Other financial assets	22	194	–	1,673	–	1,867	1,867
Forward exchange contracts		194	–	–	–	194	194
Repurchase agreements		–	–	1,673	–	1,673	1,673
Finance lease receivables	18	–	–	–	357	357	357
Cash and cash equivalents	23	–	–	–	1,784	1,784	1,784
Liabilities		(192)	(13,169)	–	–	(13,361)	(14,190)
Interest bearing debt	29	–	(8,355)	–	–	(8,355)	(9,184)
Trade and other payables	32	–	(4,782)	–	–	(4,782)	(4,782)
Shareholders for dividend	36	–	(21)	–	–	(21)	(21)
Other financial liabilities	22	(192)	–	–	–	(192)	(192)
Interest rate swaps		(25)	–	–	–	(25)	(25)
Cross currency swaps		(16)	–	–	–	(16)	(16)
Forward exchange contracts		(151)	–	–	–	(151)	(151)
Credit facilities utilised	23	–	(11)	–	–	(11)	(11)

** Investments are disclosed net of equity investments of R12 million (2011: R9 million).*
***Trade and other receivables are disclosed net of pre-payments of R346 million (2011: R187 million).*

The fair value of the financial assets is included at the amount which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date. The changes in counterparty credit risk had no material effect on the financial instruments recognised at fair value.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.1 Fair value of financial instruments

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

Fair value of all financial instruments noted in the statement of financial position approximates carrying value, except as disclosed below.

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

Derivatives are recognised at fair value.

The fair 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 below are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates. As a result they differ from carrying values.

The fair values of 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 reporting date. The fair values of listed investments are based on quoted market prices.

Fair value hierarchy

The following table presents the Group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

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

	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2012				
Assets measured at fair value				
Cross currency swaps	**41**	**–**	**41**	**–**
Forward exchange contracts	**193**	**–**	**193**	**–**
Investment in Cell Captive	**2,248**	**518**	**1,730**	**–**
Liabilities measured at fair value				
Interest rate swaps	**(50)**	**–**	**(50)**	**–**
Forward exchange contracts	**(105)**	**–**	**(105)**	**–**
2011				
Assets measured at fair value				
Forward exchange contracts	194	–	194	–
Investment in Cell Captive	2,094	–	2,094	–
Liabilities measured at fair value				
Interest rate swaps	(25)	–	(25)	–
Cross currency swaps	(16)	–	(16)	–
Forward exchange contracts	(151)	–	(151)	–

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.2 Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities and from financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

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 in respect of derivative contracts is a net favourable position of R234 million (2011: R192 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 loans and receivables, held-to-maturity investments and financial assets held at fair value through profit or loss and available-for-sale assets (other than equity investments), 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 reduces 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 widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid 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, refer to note 21.

Given the deterioration of credit markets, stricter objectives, polices and processes were applied for managing and measuring the risk than in the previous period.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.2 Credit risk management *(continued)*

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

	Carrying amount	
	2011 Rm	**2012 Rm**
Trade receivables (refer to note 21)		
Telkom SA	4,243	**4,344**
Business and residential	1,568	**1,587**
Global, corporate and wholesale	1,884	**2,026**
Government	546	**629**
Other customers	245	**102**
Multi-Links	51	**–**
International	79	**99**
South Africa	752	**784**
Impairment of trade receivables (refer to note 21)	(496)	**(583)**
Subtotal for trade receivables	4,629	**4,644**
Other receivables*	687	**706**
Investments and loans receivable**	2,094	**2,248**
Other financial assets	1,867	**2,243**
Finance lease receivables	357	**372**
Cash	1,784	**1,168**
	11,418	**11,381**

** Other receivables are disclosed net of prepayments of R346 million (2011: R187 million).*

***Investments are disclosed net of equity investments of R12 million (2011: R9 million).*

	2011 Rm	**2012 Rm**
The ageing of trade receivables at the reporting date was:		
Not past due/current	3,665	**3,749**
Past due but not impaired	–	**–**
21 to 60 days	406	**590**
61 to 90 days	146	**153**
91 to 120 days	99	**146**
120+ days	809	**589**
	5,125	**5,227**
The ageing in the allowance for the impairment of trade receivables at reporting date was:		
Current defaulted trade	2	**61**
21 to 60 days	40	**55**
61 to 90 days	19	**36**
91 to 120 days	37	**42**
120+ days	398	**389**
	496	**583**

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 21.

Included in the allowance for doubtful debts, for Telkom SA are individually impaired receivables with a balance of R211 million (2011: R252 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.3 Liquidity risk management

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

Liquidity risk is managed by the Group's treasury department in accordance with policies and guidelines formulated by the Group's Executive Committee. In terms of its borrowing requirements the Group ensures that sufficient facilities exist to meet its immediate obligations. 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 committed facilities and/or 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 2012 financial year.

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flow at the reporting date:

	Notes	Carrying amount Rm	Contrac-tual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
2012							
Non-derivative financial liabilities							
Interest bearing debt (excluding finance leases)	29	**6,335**	**7,392**	**1,208**	**2,141**	**1,464**	**2,579**
Credit facilities utilised	23	**3**	**3**	**3**	**–**	**–**	**–**
Trade and other payables	32	**4,291**	**4,707**	**4,707**	**–**	**–**	**–**
Finance lease liabilities	39	**851**	**1,344**	**190**	**158**	**564**	**432**
Shareholders for dividend	36	**23**	**23**	**23**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	22	**50**	**50**	**29**	**25**	**(4)**	**–**
Forward exchange contracts	22	**105**	**105**	**100**	**5**	**–**	**–**
		11,658	**13,624**	**6,260**	**2,329**	**2,024**	**3,011**
2011							
Non-derivative financial liabilities							
Interest bearing debt (excluding finance leases)	29	7,444	8,581	97	1,164	4,734	2,586
Credit facilities utilised	23	11	11	11	–	–	–
Trade and other payables	32	4,782	4,798	4,798	–	–	–
Finance lease liabilities	39	911	1,519	182	188	512	637
Shareholders for dividend	36	21	21	21	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	25	25	22	8	(5)	–
Cross currency swaps	22	16	16	12	(5)	9	–
Forward exchange contracts	22	151	151	89	52	10	–
		13,361	15,122	5,232	1,407	5,260	3,223

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 88% (2011: 69.50%) of the total debt.The debt profile of mainly fixed rate debt has been maintained to limit the Group's exposure to interest rate increases given the size of the Group's debt portfolio. There were no changes in the policies and processes for managing and measuring the risk from the previous period.

The table below summarises the interest rate swaps outstanding as at the reporting date:

	Average maturity	Notional amount Rm
2012		
Interest rate swaps outstanding		
Pay fixed	**1–5 years**	**1,750**
2011		
Interest rate swaps outstanding		
Pay fixed	2–3 years	1,250

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.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. 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.

The Group enters into derivative contracts to hedge foreign currency exposure on the Group's operations and liabilities and protect the Group from the risk that the eventual net cash flows will be adversely affected by changes in exchange rates.

There were no changes in the objectives, policies and processes for managing and measuring the risk from the previous period.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk *(continued)*

Foreign currency exchange rate risk management *(continued)*

The following table details the foreign forward exchange contracts and cross currency swaps outstanding at the reporting date:

To buy	Forward value contract value m	Forward value Rm	Fair value Rm
2012			
Currency			
USD	**275**	**2,185**	**(71)**
Euro	**40**	**434**	**(21)**
Other	**5**	**57**	**–**
		2,676	
Cross currency swaps			
USD	**67**	**466**	**41**
2011			
Currency			
USD	245	1,893	(143)
Euro	31	306	(7)
Other	4	11	(1)
		2,210	
Cross currency swaps			
USD	67	466	(16)
To sell			
2012			
Currency			
USD	**161**	**1,441**	**173**
Euro	**3**	**33**	**1**
Other	**1**	**16**	**–**
		1,490	
2011			
Currency			
USD	102	971	193
Euro	5	52	1
		1,023	

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk *(continued)*

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:

	Euro Rm	United States Dollar Rm	Other Rm
2012			
Net foreign currency monetary assets/(liabilities)			
Functional currency of company operation			
South African Rand	**294**	**514**	**(1)**
2011			
Net foreign currency monetary assets/(liabilities)			
Functional currency of company operation			
South African Rand	124	1,055	4
Naira	–	(1,650)	–

Sensitivity analysis

Interest rate risk

The analysis on interest rate and foreign currency sensitivity are prepared on the basis of prevailing information as at the reporting date and the assumption that all variables remain constant. The analysis is based on the exposure to interest rates and foreign currency for derivatives and other financial liabilities.

A 100 basis points increase or decrease is used when determining interest rate sensitivity and a 10% movement is used when reporting on foreign currency sensitivity. These parameters represent management's assessment of the reasonably possible change in interest and exchange rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2012 would increase/decrease by R42 million (2011: increase by R42 million and decrease by R42 million).

The following table illustrates the sensitivity to a reasonably possible change in the interest rates before tax, with all other variables held constant:

	+ 1% movement		– 1% movement	
	Profit Rm	Other comprehensive income Rm	Profit Rm	Other comprehensive income Rm
Classes of financial instruments per statement of financial position				
2012				
Assets				
Other financial assets	**6**	**–**	**(6)**	**–**
Cross currency swaps	**2**		**(2)**	
Forward exchange contract	**4**		**(4)**	
Liabilities				
Other financial liabilities	**36**	**–**	**(36)**	**–**
Interest rate swaps	**36**		**(36)**	
	42	**–**	**(42)**	**–**

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk *(continued)*

Sensitivity analysis *(continued)*

Interest rate risk *(continued)*

	+ 1% movement		– 1% movement	
	Profit Rm	Other comprehensive income Rm	Profit Rm	Other comprehensive income Rm
Classes of financial instruments per statement of financial position				
2011				
Assets				
Other financial assets	(12)	–	12	–
Forward exchange contract	(12)		12	
Liabilities				
Other financial liabilities	54	–	(54)	–
Interest rate swaps	28		(28)	
Cross currency swaps	13		(13)	
Forward exchange contract	13		(13)	
	42	–	(42)	–

Foreign exchange currency risk

If exchange rates had been 10% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 March 2012 would decrease/increase by R149 million (2011: increase/decrease by R59 million).

The following table illustrates the sensitivity to a reasonably possible change in the exchange rates before tax, with all other variables held constant:

	+ 10% movement (Depreciation)		**– 10% movement (Appreciation)**	
	Profit Rm	**Other comprehensive income Rm**	**Profit Rm**	**Other comprehensive income Rm**
Classes of financial instruments per statement of financial position				
2012				
Assets				
Trade and other receivables	**64**		**(64)**	
Other financial assets	**173**	**–**	**(173)**	**–**
Forward exchange contract	**125**		**(125)**	
Cross currency swaps	**48**		**(48)**	
Cash and cash equivalents	**1**		**(1)**	
Liabilities				
Interest bearing debt	**(67)**		**67**	
Trade and other payables	**(22)**		**22**	
	149	**–**	**(149)**	**–**
2011				
Assets				
Trade and other receivables	72		(72)	
Other financial assets	73	–	(73)	–
Forward exchange contract	73		(73)	
Cash and cash equivalents	1		(1)	
Liabilities				
Interest bearing debt	58		(58)	
Trade and other payables	(19)		19	
Other financial liabilities	(244)	–	244	–
Cross currency swaps	(48)		48	
Forward exchange contract	(196)		196	
Equity		39		(39)
	(59)	39	59	(39)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.5 Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the Group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The Group is not exposed to commodity price risk. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the total amount for local equity investments was R2,716 million (2011: R1,661 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R95 million (2011: R47 million) before tax. An equal and opposite change would have decreased profit or loss.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

15.6 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and future development of the business. Capital comprises equity attributable to equity holders of Telkom, which it monitors using, *inter alia*, a net debt to EBITDA ratio. The Group's guidance is to keep the ratio below 1.4 times. Included in net debt are interest bearing debts, credit facilities and other financial liabilities, less cash and cash equivalents and other financial assets.

The Group's current dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The Group may revise its dividend policy from time to time. The determination to pay dividends, and the amount of the dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, the Group's net debt levels, interest coverage, internal cash flows, prospects and available growth opportunities.

No changes were made in the objectives, policies or processes during the years ended 31 March 2012 and 31 March 2011.

Neither Telkom, nor any of its subsidiaries are subject to externally imposed capital requirements.

The net debt to EBITDA ratio at reporting date was as follows:

	2011 Rm	**2012** **Rm**
Non-current portion of interest bearing debt	8,198	**5,897**
Current portion of interest bearing debt	157	**1,289**
Credit facilities utilised	11	**3**
Non-current portion of other financial liabilities	69	**26**
Current portion of other financial liabilities	123	**129**
Less: Cash and cash equivalents	(1,784)	**(1,168)**
Less: Other financial assets	(1,867)	**(2,243)**
Net debt	4,907	**3,933**
EBITDA*	9,155	**8,546**
Net debt to EBITDA ratio	0.54	**0.46**

** 2011 EBITDA was not restated.*

		2011 Rm	2012 Rm
16.	**INVESTMENTS**	2,103	**2,260**
	At fair value through profit and loss	2,094	**2,248**
	Linked insurance policies – Coronation	2,094	**2,248**
	Investment in joint venture	9	**12**
	Equity investment in Number Portability Company	9	**10**
	Equity investment in Satellite Data Networks Mauritius (Pty) Limited	–	**2**

Linked insurance policies – Coronation

The fair value through profit or loss investment is used to fund the post-retirement medical aid liability. These investments are made through the Cell Captive in which Telkom holds 100% of the preference shares, and represent the fair value of the underlying investments of the Cell Captive. The cost of the investment amounts to R959 million (2011: R980 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.

Investment in joint venture

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The NPC was previously jointly owned by Vodacom, MTN and Cell C. During the 2011 financial year Telkom purchased a 20% share.

Satellite Data Networks Mauritius (Pty) Limited is a joint venture within the iWayAfrica Group. The cost of the investment was RNil million. The increase is due to the profit of R2.2 million (2011: RNil million).

		2011 Rm	2012 Rm
17.	**DEFERRED EXPENSES AND DEFERRED REVENUE**		
	Deferred expenses	93	**47**
	Non-current deferred expenses	83	**47**
	Long-term lease payments	33	**–**
	Telkom Pension Fund asset (refer to note 31)	50	**47**
	Current portion of deferred expenses	10	**–**
	Deferred revenue	2,844	**3,127**
	Non-current deferred revenue	1,073	**1,132**
	Current portion of deferred revenue	1,771	**1,995**

The decrease in deferred expenses is due to the disposal of Multi-Links Telecommunications Limited as long-term lease payments solely related to Multi-Links Telecommunications Limited.

Deferred revenue is activation revenue recognised systematically over the expected duration of the customer relationship period.

Included in deferred revenue is profit on the sale and leaseback of certain Telkom buildings of R75 million (2011: R86 million) and short-term portion of R11 million (2011: R11 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.

18. FINANCE LEASE RECEIVABLES

The Group provides voice and non-voice services through the use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements, which were assessed to be finance leases in terms of IAS 17.

	Total Rm	< 1 year Rm	1 – 5 years Rm	> 5 years Rm
2012				
Minimum lease payments receivable				
Lease payments receivable	**442**	**163**	**279**	**–**
Unearned finance income	**(70)**	**(35)**	**(35)**	**–**
Present value of minimum lease income	**372**	**128**	**244**	**–**
Lease receivables	**372**	**128**	**244**	**–**
2011				
Minimum lease payments receivable				
Lease payments receivable	433	153	280	–
Unearned finance income	(76)	(35)	(41)	–
Present value of minimum lease income	357	118	239	–
Lease receivables	357	118	239	–

19. DEFERRED TAXATION

	2011 Rm	2012 Rm
19. DEFERRED TAXATION	(838)	**(694)**
Opening balance	(779)	**(838)**
Profit and loss movements*	(103)	**494**
Capital allowances	(38)	**516**
Provisions and other allowances	(45)	**520**
Underprovision prior year	(28)	**(2)**
Secondary taxation on companies (STC) credit raised/(utilised)	7	**(14)**
Tax losses	1	**(526)**
Deferred taxation realised on foreign operations	–	**(332)**
Other comprehensive income tax impact (refer to note 11)	44	**(18)**
The balance comprises:	(838)	**(694)**
Capital allowances	(3,589)	**(3,343)**
Provisions and other allowances	2,474	**2,642**
Tax losses	533	**7**
STC taxation credits	14	**–**
Deferred taxation balance is made up as follows:	(838)	**(694)**
Deferred taxation assets	56	**53**
Deferred taxation liabilities	(894)	**(747)**
Unutilised STC credits	140	**–**

STC was provided for at a rate of 10% on the amount by which dividends declared exceeded dividends received in the specified dividend cycle. The deferred taxation asset was raised in 2011 as it was probable that it will be utilised in future. Going forward STC is replaced with a dividend withholding taxation.

The deferred taxation liability decreased mainly due to the shorter taxation write-off periods on property, plant and equipment that was previously utilised.

Deferred taxation realised on foreign operations relates to the foreign exchange losses on the disposal of Multi-Links Telecommunications Limited.

** Profit and loss movements for 2011 in note 9 were restated for the impact of Multi-Links discontinued operations.*

		2011 Rm	2012 Rm
20.	**INVENTORIES**	1,121	**993**
	Gross inventories	1,392	**1,259**
	Write-down of inventories to net realisable value	(271)	**(266)**
	Inventories consist of the following categories:	1,121	**993**
	Installation material, maintenance material and network equipment	823	**685**
	Merchandise	298	**308**
	Write-down of inventories to net realisable value	271	**266**
	Opening balance	587	**271**
	Transfer to disposal group held for sale	(297)	**–**
	Charged to selling, general and administrative expenses	209	**209**
	Inventories written-off	(228)	**(214)**
21.	**TRADE AND OTHER RECEIVABLES**	5,503	**5,696**
	Trade receivables	4,629	**4,644**
	Gross trade receivables	5,125	**5,227**
	Impairment of receivables	(496)	**(583)**
	Pre-payments and other receivables	874	**1,052**
	Impairment allowance account for receivables	496	**583**
	Opening balance	381	**496**
	Charged to selling, general and administrative expenses (note 6.3)*	479	**690**
	Transfer to disposal group held for sale	(27)	**(16)**
	Receivables written-off	(337)	**(587)**

The increase in receivables written-off relates mainly to irrecoverable Telkom Mobile receivables.

The repayment terms of trade receivables vary between 21 days and 30 days from date of invoice. Interest charged varies between bank prime +1% and 18% depending on the contract.

Refer to note 15.2 for detailed credit risk analysis.

** Note 6.3 has been restated in 2011 for the impact of Multi-Links discontinued operations.*

	2011 Rm	2012 Rm
22. OTHER FINANCIAL ASSETS AND LIABILITIES		
Non-current other financial assets	193	**48**
Total other financial assets	1,867	**2,243**
Held-to-maturity		
Repurchase agreements	1,673	**2,009**
At fair value through profit or loss	194	**234**
Forward exchange contracts	194	**193**
Cross currency swaps	–	**41**
***Less:* Current portion of other financial assets**	1,674	**2,195**
Held-to-maturity		
Repurchase agreements	1,673	**2,009**
At fair value through profit or loss		
Forward exchange contracts	1	**186**

Repurchase agreements

Telkom manages a portfolio of repurchase agreements with a view to generating additional investment income on the favourable interest rates provided by these transactions. Interest received from the borrower is based on the current market related yield of the underlying asset.

	2011 Rm	2012 Rm
Non-current other financial liabilities	69	**26**
Total other financial liabilities	192	**155**
At fair value through profit or loss	192	**155**
Interest rate swaps	25	**50**
Cross currency swaps	16	**–**
Forward exchange contracts	151	**105**
***Less:* Current portion of other financial liabilities**	123	**129**
At fair value through profit or loss	123	**129**
Interest rate swaps	22	**29**
Cross currency swaps	12	**–**
Forward exchange contracts	89	**100**

Hedging activities and derivatives

The Group uses forward exchange contracts and interest rate swaps to economically hedge some of its transaction exposures, however hedge accounting is not applied.

		2011 Rm	2012 Rm
23.	**NET CASH AND CASH EQUIVALENTS**	1,773	**1,165**
	Cash shown as current assets	1,784	**1,168**
	Cash and bank balances	757	**713**
	Short-term deposits	1,027	**455**
	Credit facilities utilised	(11)	**(3)**
	Undrawn borrowing facilities	7,558	**6,500**

The undrawn borrowing facilities are unsecured. When drawn, the facilities bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2012, R4,000 million (2011: R4,820 million) of these undrawn facilities were committed by Telkom.

Short-term deposits

Short-term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.

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 to any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants of the loan facilities indicated in note 29.

The significant decrease in cash and bank balances and short-term deposits is mainly due to the early repayment of a portion of the syndicated loan which is due in the 2013 financial year (refer to note 29).

24. SHARE CAPITAL

Authorised and issued share capital is made up as follows:

	2011 Rm	2012 Rm
Authorised		
1,000,000,000 ordinary shares of R10 each	10,000	**10,000**
Issued and fully paid		
520,783,900 (2011: 520,783,900) ordinary shares of R10 each	5,208	**5,208**

The following table illustrates the movement within the number of shares issued:

	Number of shares	**Number of shares**
Shares in issue at beginning of year	520,783,900	**520,783,900**
Shares in issue at end of year	520,783,900	**520,783,900**

The unissued shares are under the control of the directors until the next Annual General Meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 20% of the current issued share capital.

Capital management

Refer to note 15.6 for detailed capital management disclosure.

	2011 Rm	2012 Rm
25. TREASURY SHARES	(771)	**(771)**

The reserve represents amounts paid by Telkom to Rossal No 65 (Pty) Limited and Acajou Investments (Pty) Limited, subsidiaries for the acquisition of Telkom's shares to be utilised in terms of the Telkom Conditional Share Plan. The Telkom Conditional Share Plan was closed in June 2010. The future use of the remaining shares is subject to management review.

At 31 March 2012, 2,046,528 (2011: 2,002,055) and 8,143,556 (2011: 8,143,556) ordinary shares in Telkom, with a fair value of R49 million (2011: R74 million) and R195 million (2011: R301 million) are held as treasury shares by its subsidiaries Rossal No 65 (Pty) Limited and Acajou Investments (Pty) Limited, respectively (refer to note 12).

26. SHARE-BASED COMPENSATION RESERVE

This reserve represents the cumulative grant date fair value of the equity-settled share-based payment transactions recognised in employee expenses during the vesting period of the equity instruments granted to employees in terms of the Telkom Conditional Share Plan (refer to note 31).

No consideration was paid on the shares issued to employees, but performance criteria would have to be met in order for the granted shares to have vested. The ultimate number of shares that vested would differ based on certain individual and Telkom performance conditions being met. The related compensation expense was 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:

	2011 Rm	2012 Rm
Balance at beginning of year	2,060	**–**
Transfer to retained earnings*	(1,746)	**–**
Net increase in equity	(314)	**–**
Employee cost	86	**–**
Vesting and transfer of shares	(400)	**–**
Balance at end of year	–	**–**

* *The Telkom Conditional Share Plan came to an end on 30 June 2010, when final vesting occurred. The balance of the reserve was transferred to retained earnings.*

	2011 Rm	2012 Rm
27. NON-DISTRIBUTABLE RESERVES	1,764	**1,887**
Opening balance	620	**1,764**
Movement during the year	1,144	**123**
Foreign currency translation reserve (net of tax of RNil million; 2011: RNil million)	30	**(52)**
Transfer to disposal group (net of tax of RNil million; 2011: R332 million)	1,033	**–**
Transfer of iWayAfrica reserves	(75)	**–**
Available-for-sale investment	–	**(5)**
Realised gains of the Cell Captive reserve	–	**(25)**
Revaluation of the Cell Captive reserve	156	**205**
The balance comprises:	1,764	**1,887**
Foreign currency translation reserve	(71)	**(123)**
Cell Captive reserve	1,835	**2,010**

The Group has a consolidated the Cell Captive, used as an investment to fund Telkom's post-retirement medical aid liability.

The earnings from the Cell Captive are recognised in profit or loss and then transferred to non-distributable reserves.

The available-for-sale investment is a re-insurance premium of the Cell Captive recognised directly in equity.

	2011 Rm	2012 Rm
28. NON-CONTROLLING INTERESTS	387	**434**
Balance at beginning of year	339	**387**
Share of earnings	120	**126**
Dividend declared	(72)	**(79)**

29. INTEREST BEARING DEBT

	2011 Rm	2012 Rm
Non-current interest bearing debt	8,198	**5,897**
Total interest bearing debt (refer to note 15)	8,355	**7,186**
Gross interest bearing debt	8,581	**7,392**
Discount on debt instruments issued	(1,137)	**(1,057)**
Finance leases	911	**851**
***Less:* Current portion of interest bearing debt**	(157)	**(1,289)**
Local debt	–	**(1,060)**
Foreign debt	(98)	**(148)**
Finance leases	(59)	**(81)**
Total interest bearing debt is made up as follows:	8,355	**7,186**
(a) Local debt	6,920	**5,709**
Locally registered Telkom debt instruments	6,920	**5,709**
Name, maturity, rate p.a., nominal value		
TL12, 2012, 12.45%, R1,060 million (2011: R1,060 million)	1,059	**1,060**
TL15, 2015, 11.9%, R1,160 million (2011: R1,160 million)	1,159	**1,159**
TL20, 2020, 6%, R2,500 million (2011: R2,500 million)	1,431	**1,495**
Syndicated loans, 2013, 7.58%, R2,000 million (2011: R3,280 million)	3,271	**1,995**

Total interest bearing debt is made up of R7,186 million (2011: R8,355 million) debt at amortised cost. Finance costs accrued on local debt is included in Trade and other payables (refer to note 32).

Local bonds

The local Telkom bonds are unsecured, but a side letter to the subscription agreement (as amended) of the TL20 bond contains a number of restrictive covenants which, if not met, could result in the early redemption of the loan. The local bonds limit Telkom's ability to create encumbrances on revenue or assets, and secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness. The syndicated loan agreement contains restrictive covenants as well as restrictions on encumbrances, disposals, Group guarantees and Group loans.

	2011 Rm	2012 Rm
29. INTEREST BEARING DEBT *(continued)*		
(b) Foreign debt	524	**626**
Currency, maturity, rate p.a., nominal value		
Euro: 2011 – 2025, 0.1% – 0.14% (2011: 0.1% – 0.14%), €8 million (2011: €9 million)	90	**85**
USD: 2011 – 2016, 2.4% – 2.5%, USD76 million (2011: 2011 – 2016 USD72 million)	430	**539**
Telkom entered into a USD127 million export credit agency (ECA) facility agreement during the previous financial year. This facility is being utilised to finance equipment for the 8•ta network roll out.		
PTA Bank and Barclays Bank	1	**–**
(also known as Eastern and Southern African Trade and Development Bank)		
iWayAfrica Group (through Africa Online Limited) had a loan with PTA Bank and Barclays Bank to the value of USD1.2 million, bearing interest at LIBOR plus 6% on USD0.8 million and 11.5% for the remaining USD0.4 million. The loan has been settled.		
Other debt		
Kalahari Holdings	3	**2**
iWayAfrica Group has a loan with its non-controlling shareholder, Kalahari Holdings. This loan bears interest at 0% with no repayment terms.		
(c) Finance leases	911	**851**
The finance leases are secured by buildings with a carrying value of R104 million (2011: R119 million) and office and network equipment with a book value of RNil million (2011: R3 million) (refer to note 13). These amounts are repayable within periods ranging from one to seven years. Interest rates vary between 13.43% and 37.78%.		
Included in non-current and current debt is:		
Debt guaranteed by the South African Government	90	**85**
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 23.		
Repayment of current portion on interest bearing debt		
The Group partially reduced the syndicated loan by R1,280 million out of available cash during the reporting period.		
The current portion of interest bearing debt of R1,289 million (nominal) as at 31 March 2012 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.		
Management believes that sufficient funding facilities will be available at the date of repayment.		

	2011 Rm	**2012 Rm**
30. PROVISIONS		
Employee related	4,711	**4,880**
Annual leave	489	**521**
Balance at beginning of year	471	**489**
Charged to employee expenses	38	**73**
Transfer to discontinued operations	(3)	**–**
Leave utilised	(17)	**(41)**
Post-retirement medical aid (refer to note 31)	4,681	**4,909**
Balance at beginning of year	4,309	**4,681**
Interest cost	588	**569**
Current service cost	115	**107**
Expected return on plan asset	(237)	**(208)**
Actuarial loss/(gain)	18	**(89)**
Curtailment (gain)/loss	(41)	**2**
Transfer from sinking fund to annuity policy	–	**(47)**
Termination settlement	(2)	**(2)**
Contributions paid	(69)	**(104)**
Telephone rebates (refer to note 31)	551	**516**
Balance at beginning of year	527	**551**
Interest cost	50	**47**
Current service cost	7	**7**
Curtailment loss	8	**–**
Past service cost	2	**2**
Actuarial gain	(19)	**(66)**
Benefits paid	(24)	**(25)**
Bonus	922	**586**
Balance at beginning of year	971	**922**
Charged to employee expenses	889	**559**
Payment	(938)	**(895)**
***Less:* Current portion of employee related provisions**	(1,932)	**(1,652)**
Annual leave	(489)	**(521)**
Post-retirement medical aid	(465)	**(492)**
Telephone rebates	(56)	**(53)**
Bonus	(922)	**(586)**

	2011 Rm	2012 Rm
30. PROVISIONS *(continued)*		
Non-employee related	29	**36**
Supplier dispute	–	**–**
Balance at beginning of year	565	**–**
Charged to expenses	(565)	**–**
Other	115	**276**
***Less:* Current portion of non-employee related provisions**	(86)	**(240)**
Other	(86)	**(240)**

The increase in non-current portion of employee-related provisions is mainly due to the increase in post-retirement medical aid (refer to note 31).

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 (2011: 22 days), which must be taken within a 19-month (2011: 19-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 annually to all qualifying employees after Telkom's results have been made public.

Other

Included in other provisions are amounts provided for asset retirement obligation, site restoration costs as well as certain legal matters that have been disclosed in the contingencies note (note 40).

31. EMPLOYEE BENEFITS

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to 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 31 March 2012 the Group employed 22,045 employees (2011: 24,667).

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 Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991.

The latest actuarial valuation performed at 31 March 2012 indicates that the pension fund is in a surplus position of R59 million. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members.

	2011 Rm	2012 Rm
31. EMPLOYEE BENEFITS *(continued)*		
The Telkom Pension Fund *(continued)*		
The funded status of the Telkom Pension Fund is disclosed below:		
The net periodic pension costs includes the following components:		
Interest cost on projected benefit obligations	21	**20**
Service cost on projected benefit obligations	5	**5**
Expected returns on plan assets	(35)	**(30)**
Net periodic pension gain recognised in profit or loss	(9)	**(5)**
The net periodic other comprehensive income includes the following components:		
Actuarial loss	22	**6**
Asset limitation in terms of IAS 19.58(b)	(14)	**1**
Net periodic pension expense recognised in other comprehensive income	8	**7**
Cumulative actuarial loss	(45)	**(51)**
Pension fund contributions	(2)	**(2)**
The status of the pension plan obligation is as follows:		
At beginning of year	219	**224**
Interest cost	21	**20**
Current service cost	5	**5**
Employee contributions	2	**2**
Benefits paid	(17)	**(7)**
Curtailment gain	(21)	**–**
Actuarial loss/(gain)	15	**(2)**
Benefit obligation at end of year	224	**242**
Plan assets at fair value:		
At beginning of year	294	**284**
Expected return on plan assets	35	**30**
Benefits paid	(17)	**(7)**
Contributions	2	**2**
Curtailment loss	(23)	**–**
Actuarial loss	(7)	**(8)**
Plan assets at end of year	284	**301**
Present value of funded obligation	224	**242**
Fair value of plan assets	(284)	**(301)**
Fund surplus	(60)	**(59)**
Asset limitation in terms of IAS 19.58(b)	10	**12**
Recognised net asset (refer to note 17)	(50)	**(47)**
Expected return on plan assets	35	**30**
Actuarial loss on plan assets	(7)	**(8)**
Actual return on plan assets	28	**22**

	2011	2012
31. EMPLOYEE BENEFITS *(continued)*		
The Telkom Pension Fund *(continued)*		
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Yield on government bonds (%)	8.6	**8.9**
Long-term return on equities (%)	11.6	**12.9**
Long-term return on cash (%)	7.6	**8.4**
Expected return on plan assets (%)	10.4	**11.7**
Salary inflation rate (%)	7.1	**7.4**
Pension increase allowance (%)	4.4	**3.8**

The overall long-term expected rate of return on assets is 11.7%. 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 bonds 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.

	2011	2012
Funding level per statutory actuarial valuation (%)	100	**100**
The number of employees registered under the Telkom Pension Fund	106	**100**
The fund portfolio consists of the following:		
Equities (%)	57	**51**
Bonds (%)	25	**14**
Cash (%)	3	**10**
Foreign investments (%)	15	**25**

The total expected contributions payable to the pension fund for the year ending 31 March 2013 is R1.8 million.

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 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 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would have to resign or transfer their share to an approved fund.

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 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.

	2011 Rm	2012 Rm
31. EMPLOYEE BENEFITS *(continued)*		
The Telkom Retirement Fund *(continued)*		
The funded status of the Telkom Retirement Fund is disclosed below:		
The net periodic retirement costs include the following components:		
Interest cost on projected benefit obligations	649	**717**
Expected return on plan assets	(748)	**(800)**
Net periodic pension expense recognised in profit or loss	(99)	**(83)**
The net periodic other comprehensive income includes the following components:		
Actuarial loss	(722)	**(83)**
Asset limitation in terms of IAS19.58(b)	570	**–**
Net periodic pension expense recognised in other comprehensive income	(152)	**(83)**
Cumulative actuarial loss	(1,827)	**(1,910)**
Retirement fund contributions	566	**558**
Benefit obligation:		
At beginning of year	7,207	**8,654**
Interest cost	649	**717**
Benefits paid	(620)	**(647)**
Liability for new pensioners	175	**26**
Curtailment loss	480	**17**
Actuarial loss	763	**248**
Benefit obligation at end of year	8,654	**9,015**
Plan assets at fair value:		
At beginning of year	7,776	**8,654**
Expected return on plan assets	748	**800**
Benefits paid	(620)	**(647)**
Asset backing new pensioners' liabilities	175	**26**
Curtailment gain	534	**17**
Actuarial gain	41	**165**
Plan assets at end of year	8,654	**9,015**
Present value of funded obligation	8,654	**9,015**
Fair value of plan assets	(8,654)	**(9,015)**
Unrecognised net asset	–	**–**
Expected return on plan assets	748	**800**
Actuarial gain on plan assets	41	**165**
Actual return on plan assets	789	**965**
Included in the fair value of plan assets is:		
Office buildings occupied by Telkom	499	**791**
Telkom shares	44	**34**
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.		
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Yield on government bonds (%)	8.6	**8.9**
Long-term return on equities (%)	11.6	**12.9**
Long-term return on cash (%)	7.6	**8.4**
Expected return on plan assets (%)	9.6	**9.9**
Pension increase allowance (%)	4.7	**5.0**

	2011 Rm	2012 Rm
31. EMPLOYEE BENEFITS *(continued)*		
The Telkom Retirement Fund *(continued)*		
The overall long-term expected rate of return on assets is 9.9%. 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.		
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 (%)	100	**100**
The number of pensioners registered under the Telkom Retirement Fund	13,280	**13,379**
The number of in-service employees registered under the Telkom Retirement Fund	22,771	**20,864**
The fund portfolio consists of the following:		
Equities (%)	39	**29**
Bonds (%)	54	**68**
Cash (%)	7	**3**
The expected contributions payable to the Retirement Fund for the year ending 31 March 2013 is R679 million.		

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 6.1. 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 30. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 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 31 March 2012.

Telkom has allocated certain investments to fund this liability as set out in note 16. The annuity policy of the Cell Captive investment is the medical plan asset.

	2011 Rm	2012 Rm
Medical aid		
Benefit obligation:		
At beginning of the year	6,371	**6,775**
Interest cost	588	**569**
Current service cost	115	**107**
Actuarial gain	(14)	**(17)**
Curtailment (gain)/loss	(41)	**2**
Termination settlement	(2)	**(2)**
Benefits paid from plan assets	(173)	**(188)**
Contributions paid by Telkom	(69)	**(104)**
Benefit obligation at end of the year	6,775	**7,142**

	2011 Rm	2012 Rm
31. EMPLOYEE BENEFITS *(continued)*		
Medical benefits *(continued)*		
Plan assets at fair value:		
At beginning of year	2,062	**2,094**
Expected return on plan assets	237	**208**
Benefits paid from plan assets	(173)	**(188)**
Transfer from sinking fund to annuity policy	–	**47**
Actuarial (loss)/gain	(32)	**72**
Plan assets at end of the year	2,094	**2,233**
Present value of funded obligation	6,775	**7,142**
Fair value of plan assets	(2,094)	**(2,233)**
Liability as disclosed in the statement of financial position (refer to note 30)	4,681	**4,909**
The net periodic other comprehensive income includes the following components:		
Actuarial (loss)/gain	(18)	**89**
Net periodic pension expense and income recognised in other comprehensive income	(18)	**89**
Cumulative actuarial loss	(2,398)	**(2,310)**
Plan assets at fair value:		
Expected return on plan assets	237	**208**
Actuarial (loss)/gain on plan assets	(32)	**72**
Actual return on plan assets	205	**280**
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Expected return on plan assets (%)	10.4	**11.3**
The expected return on plan assets assumption rate has been derived by considering the actual asset allocation and the expected long-term real return of each asset class using the actuarial asset liability model.		
Salary inflation rate (%)	7.1	**7.4**
Medical inflation rate (%)	7.6	**7.9**
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**
Average retirement age	60	**60**
Number of members	12,238	**10,857**
Number of pensioners	8,113	**8,414**

The valuation results are sensitive to changes in the underlying assumptions.

31. EMPLOYEE BENEFITS *(continued)*

Medical benefits *(continued)*

The following table provides an indication of the impact of changing some of the valuation assumptions above:

The Trudon (Pty) Limited benefit obligation of R18 million has been excluded from the sensitivity analysis below.

2012	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	**7.9%**	**–1%**	**+1%**
Benefit obligation	**7,119**	**(982)**	**1,234**
Percentage change		**(13.8%)**	**17.3%**
Service cost and interest cost 2012/2013	**674**	**(111)**	**141**
Percentage change		**(16.5%)**	**20.9%**
Discount rate	**8.9%**	**-1%**	**+1%**
Benefit obligation	**7,119**	**1,251**	**979**
Percentage change		**17.6%**	**13.8%**
Service cost and interest cost 2012/2013	**674**	**60**	**(49)**
Percentage change		**8.9%**	**(7.3%)**
Post-retirement mortality rate	**PA(90) Ultimate-1**	**-10%**	**+10%**
Benefit obligation	**7,119**	**40**	**(39)**
Percentage change		**0.6%**	**(0.5%)**
Service cost and interest cost 2012/2013	**674**	**6**	**(5)**
Percentage change		**0.9%**	**(0.7%)**

2011	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	7.6%	-1%	+1%
Benefit obligation	6,752	(939)	1,183
Percentage change		(13.9%)	17.5%
Service cost and interest cost 2011/2012	700	(103)	133
Percentage change		(14.7%)	19.0%
Discount rate	8.6%	-1%	+1%
Benefit obligation	6,752	1,200	936
Percentage change		17.8%	13.9%
Service cost and interest cost 2011/2012	700	56	(46)
Percentage change		8.0%	(6.6%)
Post-retirement mortality rate	PA(90) Ultimate-1	-10%	+10%
Benefit obligation	6,752	280	(248)
Percentage change		4.1%	(3.7%)
Service cost and interest cost 2011/2012	700	28	(24)
Percentage change		4.0%	(3.4%)

	2011	2012
The fund portfolio consists of the following:		
Equities (%)	50	**48**
Bonds (%)	15	**17**
Cash and money market investments (%)	15	**12**
Foreign investments (%)	20	**23**

	2011 Rm	2012 Rm
31. EMPLOYEE BENEFITS *(continued)*		
Telephone rebates		
Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2012. 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:		
Benefit obligation:	538	**558**
Unrecognised past service cost	(11)	**(7)**
Current service cost	7	**7**
Interest cost	50	**47**
Actuarial gain	(19)	**(66)**
Past service cost	2	**2**
Curtailment loss	8	**–**
Benefits paid	(24)	**(25)**
Liability as disclosed in the statement of financial position (refer to note 30)	551	**516**
The net periodic other comprehensive income includes the following components:		
Actuarial gain	19	**66**
Net periodic pension income recognised in other comprehensive income	19	**66**
Cumulative actuarial loss	(163)	**(97)**
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Rebate inflation rate (%)	3.9	**3.4**
Contractual retirement age	65	**65**
Average retirement age	60	**60**
The assumed rates of mortality are determined by reference to the standard published mortality table PA(90) Ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.		
Number of members	17,301	**15,294**
Number of pensioners	10,308	**10,863**

Telkom Conditional Share Plan

Telkom's shareholders approved the Telkom Conditional Plan at the January 2004 Annual General Meeting. The scheme covered both operational and management employees and was aimed at giving shares to Telkom employees at a RNil 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 and 33% in each of the three years thereafter, while the shares allocated in 2006 and 2007 together with management shares vested fully after three years. Although the number of shares awarded to employees as communicated at the grant date, the ultimate number of shares that vested would differ based on certain performance conditions being met. On appointment, certain directors would also be granted awards under the scheme.

The Telkom Board approved a fourth enhanced allocation of shares to employees on 4 September 2007, with a grant date of 27 September 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 4 September 2007, with a grant date of 27 September 2007. The number of additional shares with respect to the 2006 allocation was 4,996,860 shares.

The scheme was closed in June 2010 after the final vesting.

	2011	2012
31. EMPLOYEE BENEFITS *(continued)*		
Telkom Conditional Share Plan *(continued)*		
The following table illustrates the movement of the maximum number of shares that vested to employees for the June 2005 grant:		
Outstanding at beginning of the year	4,052	–
Forfeited during the year	(4,007)	–
Vested during the year	(45)	–
Outstanding at end of the year	–	–
The following table illustrates the movement of the maximum number of shares that vested to employees relating to the additional November 2006 grant:		
Outstanding at beginning of the year	68,519	–
Vested during the year	(16,936)	–
Forfeited during the year	(51,583)	–
Outstanding at end of the year	–	–
The following table illustrates the movement of the maximum number of shares that vested to employees for the September 2007 grant:		
Outstanding at beginning of the year	5,234,792	–
Granted during the year	88	–
Vested during the year	(5,124,632)	–
Forfeited during the year	(110,248)	–
Outstanding at end of the year	–	–

The fair value of the shares granted were calculated by an actuary using the Black-Scholes-Merton Model and the following values at grant date:

	8 August 2004 grant	23 June 2005 grant	2 November 2006 grant	4 September 2007 grant
Market share price (R)	77.50	111.00	141.25	173.00
Dividend yield (%)	2.60	3.60	3.50	3.50

	2011	2012
The principal assumptions used in calculating the expected number of shares that vested were as follows:		
Employee turnover (%)	9	–
Meeting specified performance criteria (%)	100	–

31. EMPLOYEE BENEFITS *(continued)*

The amounts for the current and previous four years are as follows:

	2008 Rm	2009 Rm	2010 Rm	2011 Rm	**2012 Rm**
Telkom Pension Fund					
Defined benefit obligation	(204)	(199)	(219)	(224)	**(242)**
Plan assets	311	247	294	284	**301**
Surplus	107	48	75	60	**59**
Asset limitation	(52)	–	(25)	(10)	**(12)**
Recognised net asset	55	48	50	50	**47**
Experience adjustment on assets	10	(67)	20	(8)	**(8)**
Experience adjustment on liabilities	(6)	1	5	(10)	**9**
Telkom Retirement Fund					
Defined benefit obligation	(7,101)	(6,704)	(7,207)	(8,654)	**(9,015)**
Plan assets	7,991	6,675	7,776	8,654	**9,015**
Unrecognised net asset/(liability)	890	(29)	569	–	**–**
Experience adjustment on assets	118	(1,735)	856	41	**165**
Experience adjustment on liabilities	485	(645)	109	(199)	**(285)**
Medical benefits					
Defined benefit obligation	(4,850)	(5,410)	(6,371)	(6,775)	**(7,142)**
Plan assets	1,929	1,618	2,062	2,094	**2,233**
Liability recognised	(2,921)	(3,792)	(4,309)	(4,681)	**(4,909)**
Experience adjustment on assets	(164)	(393)	(433)	(32)	**72**
Experience adjustment on liabilities	193	246	266	11	**18**
Telephone rebates					
Defined benefit obligation liability	(428)	(471)	(527)	(551)	**(516)**
Experience adjustment on liabilities	2	2	(15)	(13)	**12**

	2011 Rm	**2012 Rm**
32. TRADE AND OTHER PAYABLES	4,782	**4,291**
Trade payables	2,572	**2,839**
Finance cost accrued	146	**140**
Accruals and other payables	2,064	**1,312**

The decrease in accruals and other payables can be attributed to the voluntary severance packages and the voluntary early retirement packages process undertaken in the prior year.

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

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the invoice. This averages to 45 days. Telkom does not allow for interest on late payments, and none has been paid in the 2011 and 2012 financial years.

		2011 Rm	2012 Rm
33.	**RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO CASH GENERATED FROM OPERATIONS**		
	Cash generated from operations	8,093	**7,704**
	Profit/(loss) for the year	1,342	**(90)**
	Finance charges and fair value movements	1,084	**1,872**
	Taxation	985	**595**
	Investment income	(213)	**(238)**
	Interest received from trade receivables	(285)	**(245)**
	Non-cash items	5,194	**6,658**
	Depreciation, amortisation, impairment and write-offs	5,084	**6,138**
	Cost of equipment disposed when recognising finance leases	39	**40**
	Impairment of receivables	396	**690**
	(Increase)/decrease in provisions	(154)	**50**
	Profit on disposal of property, plant and equipment and intangible assets	(171)	**(42)**
	Donation of property, plant and equipment	–	**(51)**
	Profit on disposal of subsidiary	–	**(167)**
	Increase in working capital	(14)	**(848)**
	Decrease in inventories	153	**128**
	Increase in accounts receivable	(338)	**(520)**
	Increase/(decrease) in accounts payable	171	**(456)**
34.	**FINANCE CHARGES PAID**	(635)	**(564)**
	Finance charges and fair value movements per the statement of comprehensive income	(1,084)	**(1,872)**
	Non-cash items	449	**1,308**
	Movements in interest accruals	39	**4**
	Net discount amortised	40	**71**
	Borrowing costs capitalised	–	**(94)**
	Capitalised finance leases	165	**116**
	Capitalised foreign exchange	30	**35**
	Fair value adjustment	160	**(192)**
	Foreign exchange differences realised on disposal of subsidiary	–	**1,292**
	Unrealised foreign exchange gains	15	**76**
35.	**TAXATION PAID**	(1,178)	**(920)**
	Tax (payable)/receivable at beginning of the year	(163)	**89**
	Deferred taxation at the beginning of the year	(779)	**(838)**
	Current taxation	(828)	**(524)**
	Deferred taxation realised on foreign operations	–	**(332)**
	Secondary taxation on companies	(157)	**(70)**
	Deferred taxation at the end of the year	838	**694**
	Tax (receivable)/payable at end of the year	(89)	**61**

		2011 Rm	2012 Rm
36.	**DIVIDEND PAID**	(1,590)	**(812)**
	Dividend payable at beginning of the year	(23)	**(21)**
	Declared during the year – Dividend on ordinary shares:	(1,516)	**(735)**
	Final dividend for 2011: 145 cents (2010: 300 cents)	(1,516)	**(735)**
	Dividends paid to non-controlling interests	(72)	**(79)**
	Dividend payable at end of the year	21	**23**
37.	**DIVIDEND PER SHARE**		
	Dividend per share (cents)	300.0	**145.0**
	The calculation of dividend per share is based on dividends of R740 million (2011: R1,532 million) and 510,593,816 (2011: 510,638,013) number of ordinary shares outstanding on the date of dividend declaration.		

38. UNDRAWN BORROWING FACILITIES AND GUARANTEES

38.1 Rand denominated facilities and guarantees

Telkom has general banking facilities of R6,500 million (2011: R7,558 million). The facilities are unsecured, when drawn bear interest at a rate that will be mutually agreed between the borrower and lender at the time of the drawdown, have no specific maturity date and are subject to annual review. R4,000 million (2011: R4,820 million) of these undrawn facilities were committed by Telkom.

38.2 Foreign denominated facilities and guarantees

Guarantor	Details	Beneficiary		2011 Rm	2012 Rm
First Bank of Nigeria PLC (on behalf of Multi-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	USDNil million (2011: USD7.5 million)	51	–
Telkom SA SOC Limited (on behalf of Multi-Links Telecommunications Limited)	Guarantee on general short-term banking facility from Stanbic IBTC Bank PLC.	Stanbic IBTC Bank PLC	USDNil million (2011: USD20 million)	136	–
				187	–

	2011 Rm	2012 Rm
39. COMMITMENTS		
Capital commitments authorised	7,522	**7,480**
Telkom Fixed-line	4,613	**5,062**
Telkom Mobile	2,005	**1,706**
Other	904	**712**
International	3	**2**
South Africa	901	**710**
Commitments against authorised capital expenditure	1,072	**827**
Telkom Fixed-line	184	**243**
Telkom Mobile	873	**546**
Other	15	**38**
International	–	**–**
South Africa	15	**38**
Authorised capital expenditure not yet contracted	6,450	**6,653**
Telkom Fixed-line	4,429	**4,819**
Telkom Mobile	1,132	**1,160**
Other	889	**674**
International	3	**2**
South Africa	886	**672**

Capital commitments are largely attributable to purchases of property, plant and equipment and software (included in intangible assets).

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

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2012				
Operating lease commitments and receivables				
Land and buildings	**675**	**197**	**378**	**100**
Vehicles	**311**	**311**	**–**	**–**
Equipment	**6**	**6**	**–**	**–**
Rental receivable on buildings	**(403)**	**(154)**	**(249)**	**–**
Customer premises equipment receivables	**(42)**	**(30)**	**(12)**	**–**
Total	**547**	**330**	**117**	**100**
2011				
Land and buildings	705	183	408	114
Transmission and data lines	95	14	63	18
Vehicles	670	325	345	–
Equipment	15	10	5	–
Rental receivable on buildings	(368)	(126)	(242)	–
Customer premises equipment receivables	(57)	(40)	(17)	–
Total	1,060	366	562	132

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 majority of the leases 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.

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 31 March 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 31 March 2013.

		Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
39.	**COMMITMENTS** *(continued)*				
	2012				
	Finance lease commitments				
	Building				
	Minimum lease payments	**1,297**	**143**	**722**	**432**
	Finance charges	**(490)**	**(106)**	**(332)**	**(52)**
	Finance lease obligation	**807**	**37**	**390**	**380**
	Vehicles				
	Minimum lease payments	**47**	**47**	**–**	**–**
	Finance charges	**(3)**	**(3)**	**–**	**–**
	Finance lease obligation	**44**	**44**	**–**	**–**
	2011				
	Building				
	Minimum lease payments	1,427	131	659	637
	Finance charges	(600)	(110)	(376)	(114)
	Finance lease obligation	827	21	283	523
	Equipment				
	Minimum lease payments	1	1	–	–
	Finance charges	–	–	–	–
	Finance lease obligation	1	1	–	–
	Vehicles				
	Minimum lease payments	94	47	47	–
	Finance charges	(11)	(8)	(3)	–
	Finance lease obligation	83	39	44	–

Finance leases

Finance leases on vehicles relates to the lease of swap bodies. The lease term for the swap bodies is 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.

Telkom has the option to renew the lease and the first option to purchase the buildings. Telkom expects to pay R1,300 million on these buildings over the remaining seven years.

Telkom has a commitment to migrate customers to new cable systems with regard to long-term capacity leases on cables when the existing cables are decommissioned before the lease period expires.

There are no major restrictions imposed by lease arrangements.

40. CONTINGENCIES

COMPETITION COMMISSION

Telkom is party to a number of legal proceedings filed by several parties with the South African Competition Commission (CC) alleging anti-competitive practices described below. Some of the complaints filed at the CC have been referred by the CC to the Competition Tribunal (CT) for adjudication.

Should the CT find that Telkom committed a prohibited practice as set out in the Competition Act for each of the cases, the CT may impose a maximum administrative penalty of 10% of Telkom's annual turnover in the Republic of South Africa and its exports from the Republic of South Africa during Telkom's preceding financial year. However, Telkom has been advised by external legal counsel that the CT has to date not imposed the maximum penalty on any offender in respect of the contraventions being accused of.

The South African Value Added Network Services (SAVA) and Omnilink

This matter relates to the complaints filed by SAVA in May 2002 and a complaint filed by Omnilink (in August 2002) against Telkom at the CC, regarding certain alleged anti-competitive practices by Telkom. These complaints were referred by the CC to the CT on 24 February 2004. The matter was heard by the CT from 17 to 28 October 2011 and from 1 to 9 December 2011.

The presentation of evidence by Telkom and the CC was finalised in December 2011. Arguments by both sides were heard by the CT in February 2012. The CC asked for the maximum penalty of R3.25 billion to be imposed in respect of the excessive pricing complaint against Telkom, alternatively R1,168 million in respect of a complaint of alleged refusal by Telkom to provide essential facilities.

In its original heads of argument, Telkom argued that no penalty, or at worst, a nominal penalty, should be awarded in the event that the CT finds that Telkom contravened the Competition Act. However, during argument on the last day of trial the CT insisted that Telkom make submissions as to an amount of an appropriate penalty. Telkom then submitted that an appropriate penalty (if any penalty is awarded by the CT), would be no more than R20,500,677 in respect of the alleged excessive pricing complaint, or in respect of the refusal to provide essential facilities complaint, a third of the aforementioned R20,500,677, which amounts to R6,833,558. It is important to note that the aforementioned complaints are in the alternative and, accordingly, the CT can only impose a penalty in respect of one of the aforementioned two complaints, not both.

Telkom has consistently held that the conduct complained of was fully justified in terms of the regulatory and legislative environment prevailing at the time. The CT will now stand down to consider all the evidence and arguments presented and will then in due course deliver its ruling. It is not clear how long the CT will take to deliver its ruling.

Internet Solutions (IS)

IS filed a complaint at the CC in December 2007 (which was dealt with by the CC as part of the multiple complaints referral referred to below), alleging certain anti-competitive practices by Telkom, such as excessive pricing, margin squeeze, bundling and price discrimination.

Certain parts of this complaint were referred to the CT by the CC and these are dealt with in the Multiple Complaints Referral reported on below. The non-referred parts of the complaint were self-referred by IS. Telkom filed an exception to this self-referral and the CT ruled that IS must amend its papers. However, the papers remained excipiable and Telkom again excepted. IS responded to Telkom's exception application on 10 April 2012, by filing a notice withdrawing its initial referral of the entire complaint. On the same day, IS filed a supplementary affidavit amending and/or withdrawing certain paragraphs of its self-referral as currently constituted. It appears from this supplementary affidavit that IS is referring complaints of exclusionary conduct by Telkom in respect of the retail broadband internet access market, excessive pricing in respect of Telkom's pricing of ADSL lines and leased lines under 2Mbps, and price discrimination. IS also referred a price discrimination complaint and has requested, in the instance of each of the two complaints, an administrative penalty per complaint.

Telkom filed a notice of an irregular step (namely the supplementary affidavit filed by IS) and a notice of Telkom's intention to proceed to have Telkom's exception application set down for hearing. Various interlocutory applications are underway. Telkom also reserved the right to file an application for consolidation of the IS matter with the Multiple Complaints Referral matter discussed below, should there still be key areas of overlap between the two matters after IS' amendment application and Telkom's exceptions have been disposed of.

40. CONTINGENCIES (continued)

COMPETITION COMMISSION *(continued)*

Competition Commission Multiple Complaints Referral

The CC served a notice of motion on Telkom in October 2009, in which it referred complaints against Telkom filed by MWEB and IS as well as the Internet Service Providers Association (ISPA), MWEB, IS and Verizon, respectively, to the CT.

In the notice of motion the CC requests an order against Telkom in the following terms:

1) Declaring that over the complaint period:
   - The prices charged by the Telkom to other first-tier Internet Service Providers (ISPs) for high bandwidth national leased lines (above 2Mbps) were excessive in contravention of section 8(a) of the Competition Act (the 'Act');
   - The prices charged by Telkom to other first-tier ISPs for international private lease circuits were excessive; and
   - Telkom contravened section 8 of the Act by setting its prices for Diginet access lines, high bandwidth leased lines and for IP connect as charged to other first-tier ISPs (or, in the case of Diginet access lines, to end-customers using the IP networks of such first-tier ISPs) at levels which, in relation to the prices charged by Telkom for the same services to its own retail and wholesale customers acquiring bundled Diginet or ADSL access and IP network services from Telkom, made it impossible for such other first ISPs to compete cost-effectively with Telkom.

2) Interdicting Telkom from continuing with the conduct referred to in paragraph 1 above.

3) In respect of the contraventions of section 8 of the Act, directing Telkom to pay a penalty equal to 10% of its turnover for the financial year ended 31 March 2009.

4) In order to discourage the perpetuation by Telkom of the conduct referred to above, directing Telkom on an annual basis to furnish to the CC such data and information as is necessary to enable the CC to assess whether Telkom is charging prices for the services, which are the subject matter of the order in paragraph 1 above. The data and information shall be provided in the manner and form directed by the CT after hearing further submissions from the CC and Telkom.

Telkom filed its response in January 2012 (after numerous difficulties regarding access to confidential documents had been resolved) and the CC filed its reply in March 2012. Pleadings have now closed and a pre-hearing was held on 17 May 2012. The matter has been set down for hearing at the CT from 18 June 2013 to 5 July 2013.

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint at the CC early in 2010, wherein Phutuma alleged that Telkom has contravened section 8(c) of the Competition Act by abusing its dominant position in engaging in anti-competitive conduct in the telegraphic and telex maritime services market by unilaterally awarding these services to Network Telex. The CC in June 2010 decided not to refer the complaint to the CT.

However, Phutuma self-referred its complaint to the CT on 20 July 2010, alleging that Telkom engaged in an exclusionary act by appointing Network Telex in 2007 without any formal procurement process. Telkom filed its answer in which it raised certain preliminary points, and Phutuma filed its reply. Telkom's preliminary points were upheld by the CT in March 2011 and Phutuma's self-referral was dismissed with costs. Phutuma appealed this decision to the Competition Appeal Court (CAC) and filed its notice of appeal on 24 March 2011. The appeal was set down for hearing on 28 May 2012 and judgement is reserved.

Directory Solutions CC v Trudon and Telkom

Directory Solutions lodged a complaint at the CC in March 2009 as well as an application for interim relief at the CT in November 2009.

In April 2010, the CT made an order in favour of Directory Solutions in respect of the interim relief application. Telkom and Trudon lodged an appeal at the CAC. The CAC ruled in favour of Telkom and Trudon in June 2010, setting aside the order made by the CT. Directory Solutions then brought an application for special leave to appeal to the Supreme Court of Appeal, which was dismissed with costs. This thus disposes of the interim relief application. Directory Solutions' initial complaint at the CC was also non-referred by the CC on 10 February 2012. The time period within which to self-refer has expired and thus the entire complaint is also disposed of.

Independent Cellular Service Providers' Association of South Africa (ICSPA)

In 2002, ICSPA filed a complaint against Telkom at the CC. The CC issued a notice of non-referral. The complainant itself then referred the matter to the CT in September 2003. The complainant had not filed a reply to Telkom's answering affidavit. In light of the fact that almost a decade has lapsed since filing of the last pleading took place, it is unlikely that this matter will be revived.

40. CONTINGENCIES *(continued)*

COMPETITION COMMISSION *(continued)*

Orion/Telkom (Standard Bank and Edcon): Competition Tribunal

In April 2003, Orion filed a complaint against Telkom, Standard Bank and Edcon at the CC. Orion also filed an application against Telkom, Standard Bank and Edcon at the CT for an interim order. Telkom did not file its answering affidavit in the application before the CT, since it appeared that Orion was not actively pursuing this matter. The facts have also long since overtaken the underlying reasons for the interim application. As regards the complaint, the CC issued a certificate of non-referral in April 2004. However, Orion self-referred the complaint to the CT on 30 April 2004. Telkom has not filed an answer to this referral. Despite this, Orion has not done anything on the self-referral matter either. In light of the aforementioned, it is highly unlikely that this matter will be revived.

MATTERS BEFORE ICASA

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint against Telkom at the complaints and compliance committee of ICASA (CCC) in February 2010. At a hearing before the CCC on 15 July 2010, the CCC expressed the view that they lacked jurisdiction to rule on certain of the complaints, which relied on legislation over which the CCC does not have jurisdiction. The CCC requested Phutuma to amend its complaint to address this and Phutuma consequently filed an amended formal complaint sheet (replacing the first complaint sheet). However, at a hearing on 28 March 2011 the CCC ruled that the second complaint sheet suffered from the same defects as the original complaint sheet and requested Phutuma to reformulate the complaint again. Phutuma then provided the CCC with a fresh complaint in hand-written format. In terms of the complaint as currently constituted, Phutuma's complaint currently consists of six (6) complaints, as set out below:

First complaint: Phutuma alleges that Telkom breached condition 4 of its Individual Electronic Communications Network Services (IECNS) licence relating to universal service obligations in that the service which Telkom is giving does not conform to the 'ITU Standards'.

Second complaint: Phutuma alleges that Telkom breached condition 4.2.2 of its IECNS licence and condition 3.2.2 of its Individual Electronic Communication Network (IECN) licence in that there is no stipulation in Telkom's arrangement with Network Telex to ensure that the exercise by Network Telex of Telkom's function under its licence do not contravene any of the conditions of its licence.

Third complaint: Phutuma alleges that Telkom has contravened section 16(6) of the Electronic Communications Act (ECA) in that it has allegedly ceded or transferred part of both its Individual Electronic Communication Services (IECS) and IECNS licence to Network Telex without the prior written approval of ICASA, being the function of telegrams, maritime services (ship to shore), customer premises equipment, and telex machines.

Fourth complaint: Phutuma alleges that Telkom breached section 67(1)(a) – (b) of the ECA read with section 2(g) – (h) thereof in that Telkom substantially lessened or prevented competition by giving undue preference to Network Telex and by causing undue discrimination against the complainant and did not promote open, fair and non-discriminatory access to electronic communications services by simply appointing Network Telex and appointing a non-BEE, being Network Telex.

Fifth complaint: Phutuma alleges that Telkom breached condition 4.4 of its IECS licence and condition 3.4 of its IECNS licence and/or contravened section 15(1) and section 80(1) of the Postal Services Act in that Telkom allegedly entrusted the delivery of telegrams to Network Telex.

Sixth complaint: Phutuma alleges that Telkom breached condition 4.2.3 of its IECS licence and condition 3.2.3 of its IECNS licence in that it failed to act against Network Telex despite the latter's known contravention of the Postal Services Act.

Telkom responded to this amended complaint sheet in December 2011 and Phutuma filed its reply thereto. Telkom has requested ICASA to allocate a date for hearing of the matter before the CCC.

End-User and Service Charter regulations

Allegations have been made at the CCC regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter regulations relating to the clearance of reported faults. A hearing has taken place and, should the CCC rule against Telkom, it could impose a penalty of up to R650,000 on Telkom. Telkom, however, has initiated administrative review proceedings seeking to set-aside the applicability of the regulations.

Neotel (Pty) Limited (Neotel)

On 2 December 2011, the CCC notified Telkom of having received ICASA's referral of notification of dispute. A dispute was lodged by Neotel that broadly relates to Telkom's alleged refusal to lease its unbundled local loop (LLU) constituting a portion of Telkom's electronic communication network.

The CCC heard arguments from both parties in the above matter in May 2012. At the culmination of proceedings, the CCC ruled that Neotel's request to access Telkom's local loop was a valid request and that Telkom's response to the same was inadequate. However, the CCC also ruled that there currently exists no regulatory framework to give practical effect to LLU. The effect of this is to render the practical implementation of LLU not possible or legislatively permissible. In the circumstances the CCC has recommended that Telkom and Neotel reconsider the issue and revert to ICASA within three months and that ICASA consider the matter within the context of its December 2011 LLU determinations.

40. CONTINGENCIES *(continued)*

SUPPLIER DISPUTE

Radio Surveillance Security Services (Pty) Limited (RSSS)

During September 2011, RSSS served two summons on Telkom for the sum of R215,661,865.88 (including VAT) and R9,913,782.00 (including VAT), respectively. In the summons for R215,661,865.88 RSSS alleged that Telkom was indebted to it for the rendering and upgrading of 440 alarm systems previously purchased by Telkom, to be M3010 compliant and for which services Telkom was indebted to it.

Telkom neither concluded any written contract with RSSS for the provision of these alleged services nor did Telkom place any orders or accepted any quotations in respect of these services. In the summons for R9,913,782.00 RSSS claimed that Telkom was liable for rentals, monitoring and maintenance of alarm systems which were rented and / or purchased from RSSS. Both actions are defended. During November 2011 RSSS withdrew both actions against Telkom in terms of a settlement agreement. Telkom was of the view that the dispute was settled on the basis that RSSS withdraw its summons and each party pays its own legal costs. RSSS differed from Telkom's view and in December 2011 RSSS reissued summons for the same amounts. Telkom is defending both claims and filed a counterclaim for R28,000,000.00 on the first claim. With regard to the second claim, Telkom has served a notice of exception on RSSS.

HIGH COURT

Phutuma Networks (Pty) Limited (Phutuma)

On 20 August 2009 Phutuma served a summons on Telkom for damages arising from a tender published on 30 November 2007 for outsourcing of the Telex and Gentex services and for the provision of a solution to support the maritime industry requirements. The tender was cancelled on 10 June 2009, without any award being made, due to the expiration of the validity period. Phutuma has alleged that Telkom had awarded the tender to a third party outside a fair, transparent, competitive and cost-effective procurement process. It has claimed damages of R3,730,433,545.00, alternatively R5,513,876,290.00, and further alternatively R1,771,683,580.00 plus interest. The matter was set down for hearing from 24 October 2011 to 18 November 2011 in the High Court. On 24 October 2011, Phutuma brought an application to compel Telkom to make better discovery of documents for trial purposes. The court dismissed Phutuma's application with costs. Phutuma applied for an adjournment of the trial, which application was granted subject to Phutuma paying Telkom wasted legal costs. The trial has been set down for hearing on 20 May 2013.

Phutuma also lodged a complaint with the Public Protector during November 2011. Telkom responded to the complaint in December 2011.

South African National Road Agency (SANRAL)

During October 2009, SANRAL served an application against Telkom issued out of the KwaZulu-Natal High Court in terms of which it sought a declaratory order and interdict. The application arose due to Telkom proceeding to install facilities along the N2 national road reserve within the proximity of Pongola. On 25 October 2010, the court granted a declaratory order which prohibited Telkom from entering upon any SANRAL land without obtaining SANRAL's prior permission. Telkom appealed against the court order. In March 2012, the full bench of the KwaZulu-Natal High Court dismissed the appeal.

Bihati Solutions (Pty) Limited (Bihati) and Merid Trading (Pty) Limited (Merid)

This matter arose from the award of a tender by Telkom in November 2008 for the construction of network services, after the validity period had expired. In November 2009 the Telkom Board resolved to apply to the High Court to review and set aside the award since the award was made outside of the validity period. Simultaneously with the Telkom application, Bihati applied to the High Court for the Telkom Board decision to be reviewed and set aside and for an order compelling Telkom to commence with the negotiations in respect of the award. Merid and Bihati opposed Telkom's application. The court granted Telkom's application and dismissed Bihati's application with costs. Bihati and Merid are appealing the judgement granted in favour of Telkom in the Supreme Court of Appeals, which is opposed by Telkom. The appeal is set down for hearing on 16 August 2012. Telkom has, in the interim, received a letter of demand from Bihati in which it claims damages. The contents of the letter of demand is under discussion.

ZTE Mzanzi South Africa (Pty) Limited (ZTE)

During 2011, Telkom awarded the MSAN tender to Huawei Technologies Africa and Alcatel-Lucent. In January 2012, an unsuccessful bidder, ZTE, served an interdict application on Telkom, in which it sought an order for an interim interdict, to restrain and interdict Telkom from implementing the tender and concluding any service level agreements with the successful bidders, pending the finalisation of the dispute resolution process between Telkom and ZTE. In March 2012 the High Court granted the interim interdict in favour of ZTE. Telkom has filed an application for leave to appeal to the Supreme Court of Appeal, which was granted on 23 May 2012.

40. CONTINGENCIES *(continued)*

HIGH COURT *(continued)*

African Pre-Paid Services Nigeria Limited (APSN) v Multi-Links: Arbitration matter

Multi-Links, a previously wholly-owned subsidiary of Telkom in Nigeria, concluded a Super Dealer agreement with African Pre-Paid Services (APS), in December 2008 in terms of which APS was appointed for an initial period of ten years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (the agreement). On 29 May 2009, APS ceded and assigned all of its rights and obligations in terms of the agreement to APSN. On 26 November 2010 APSN cancelled the agreement on the basis of an alleged repudiation by Multi-Links of the agreement. On 13 June 2011 APSN launched arbitrational proceedings in South Africa (as per contract) against Multi-Links claiming damages (nine claims) in the total sum of USD481,199,101.00. Multi-Links is defending the matter and has filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in Multi-Links to HIP Oils Topco Limited (HIP Oils) during September 2011. In addition, in terms of an indemnity contained in the sale and purchase agreement between Telkom and HIP Oils concluded in August 2011, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and Multi-Links.

The arbitration will be heard from 4 November to 15 December 2012.

OTHER

HIP Oils Topco Limited (HIP Oils)

With the sale of Telkom's shares in Multi-Links to HIP Oils, Telkom provided a taxation indemnity and a "creditors" indemnity to HIP Oils and Multi-Links where such liability or obligation was incurred prior to 3 October 2011 and to the extent that such liability exceed the amounts set out in schedule 4 (creditors list) to the Sale and Purchase agreement.

Telkom has undertaken to indemnify any actual or contingent liabilities, obligations or other indebtedness of any nature owed or owing to trade, financial and other creditors of Multi-Links where such liability, obligation or other indebtedness was incurred and not disclosed to HIP Oils prior to the completion date.

Consumer Protection Act (CPA)/National Consumer Commission (NCC)

On 25 August 2011 the NCC served compliance notices on Telkom for both fixed-line and mobile services to be brought in line with CPA. The NCC alleges that Telkom's terms and conditions for fixed-line and mobile services (8•ta) were, at that stage, not compliant with the CPA. Telkom has filed an objection to these compliance notices in terms of section 101 of the CPA.

On 28 September 2011, Telkom submitted its revised terms and conditions to the NCC. Telkom is of the view that the revised terms and conditions are in compliance with the provisions of the CPA. The NCC is not in agreement with Telkom's interpretation of the CPA in respect of certain clauses of our standard terms and conditions. Telkom has further amended those clauses to give the NCC more comfort and has implemented its revised/compliant terms and conditions. Telkom has met with the NCC to ascertain how the matter can be settled.

Telkom's objection was set down for hearing in May 2012, but was postponed at the request of the NCC.

TAX MATTERS

The Group is regularly subject to an evaluation, by tax authorities, of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

41. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS

PL Zim, N Kapila, J Molobela, JN Hope and RJ Huntley, five of Telkom's Board members, are the South African Government representatives on Telkom's Board of Directors.

		Beneficial		Non-beneficial	
Number of shares	Notes	Direct	Indirect	Direct	Indirect
2012					
Directors' shareholding					
Executive					
NT Moholi		**37,004**	**–**	**–**	**–**
Total		**37,004**	**–**	**–**	**–**
Non-executive					
J Molobela		**267**			
NP Mnxasana		**160**	**–**	**–**	**–**
		427	**–**	**–**	**–**
2011					
Directors' shareholding					
Executive					
RJ September	1	–	–	–	–
PG Nelson	2	–	–	–	–
Total		–	–	–	–
Non-executive					
J Molobela		267			
NP Mnxasana		160	–	–	–
		427	–	–	–

1 Resigned as Telkom Group Chief Executive Officer on 7 July 2010.
2 Resigned as Group Chief Financial Officer on 25 August 2010.

	2011 Rm	**2012** **Rm**
Directors' emoluments	19	**28**
Executive		
For services as directors	12	**20**
Non-executive		
For other services	7	**8**

41. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2012					
Emoluments per director:					
Non-executive	**8,181,181**	**–**	**–**	**–**	**8,181,181**
NP Dongwana	**62,401**	**–**	**–**	**–**	**62,401**
B du Plessis	**820,000**	**–**	**–**	**–**	**820,000**
JN Hope	**760,000**	**–**	**–**	**–**	**760,000**
RJ Huntley	**970,000**	**–**	**–**	**–**	**970,000**
PG Joubert	**325,417**	**–**	**–**	**–**	**325,417**
N Kapila	**704,811**	**–**	**–**	**–**	**704,811**
PSC Luthuli	**955,000**	**–**	**–**	**–**	**955,000**
I Kgaboesele**	**428,750**	**–**	**–**	**–**	**428,750**
NP Mnxasana	**47,401**	**–**	**–**	**–**	**47,401**
J Molobela	**775,000**	**–**	**–**	**–**	**775,000**
SP Sibisi	**52,401**	**–**	**–**	**–**	**52,401**
Y Waja	**760,000**	**–**	**–**	**–**	**760,000**
PL Zim	**1,520,000**	**–**	**–**	**–**	**1,520,000**
Executive	**–**	**7,461,720**	**3,129,613**	**9,860,446**	**20,451,779**
NT Moholi CEO	**–**	**5,121,720**	**2,253,013**	**4,692,588**	**12,067,321**
JH Schindehütte CFO	**–**	**2,340,000**	**876,600**	**5,167,858**	**8,384,458**
Total emoluments – paid by Telkom	**8,181,181**	**7,461,720**	**3,129,613**	**9,860,446**	**28,632,960**
2011					
Emoluments per director:					
Non-executive	7,236,128	–	–	–	7,236,128
D Barber	23,855	–	–	–	23,855
B du Plessis	925,000	–	–	–	925,000
JN Hope	815,000	–	–	–	815,000
RJ Huntley	1,031,000	–	–	–	1,031,000
PG Joubert	715,000	–	–	–	715,000
N Kapila	88,549	–	–	–	88,549
Dr VB Lawrence***	467,378	–	–	–	467,378
PSC Luthuli	900,000	–	–	–	900,000
B Molefe****	17,255	–	–	–	17,255
J Molobela	1,387,500	–	–	–	1,387,500
Dr E Spio-Garbrah***	37,484	–	–	–	37,484
Y Waja	617,316	–	–	–	617,316
PL Zim	210,791	–	–	–	210,791
Executive	–	3,900,282	–	7,535,852	11,436,134
RJ September CEO	–	2,583,881	–	4,008,228	6,592,109
PG Nelson CFO	–	1,316,401	–	3,527,624	4,844,025
Total emoluments – paid by Telkom	7,236,128	3,900,282	–	7,535,852	18,672,262

* *Included in fringe and other benefits is a pension contribution for NT Moholi of R665,824 and a restraint of trade of R3,404,300, JH Schindehütte, a pension contribution of R304,200 and a sign-on bonus of R4,500,000, RJ September a pension contribution of RNil (2011: R335,905) and PG Nelson a pension contribution of RNil (2011: R171,132).*

** *Paid to Sphere Holdings (Pty) Limited.*

	Name	Nationality
*** *Foreign directors*	*E Spio-Garbrah*	*Ghanian*
	Dr. VB Lawrence	*American*

**** *Paid to the Public Investment Corporation.*

41. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

Emoluments per prescribed officer:

	Notes	Remune-ration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF13%*** R
2012						
Emoluments per prescribed officer:						
BC Armstrong	1	**2,781,000**	**1,017,179**	**6,674,400**	**10,472,579**	**253,070**
DJ Fredericks	2	**2,825,421**	**627,525**	**4,433,344**	**7,886,290**	**293,844**
JM Mavuso	1	**2,261,957**	**580,458**	**5,438,520**	**8,280,935**	**176,432**
TE Msubo		**2,853,935**	**693,232**	**1,011,787**	**4,558,954**	**222,607**
MB Sallie	1	**2,622,812**	**892,759**	**6,304,572**	**9,820,143**	**221,627**
GJ Rasethaba		**2,436,780**	**551,833**	**2,436,780**	**5,425,393**	**183,733**
MJ Nzeku		**3,848,278**	**–**	**–**	**3,848,278**	**335,185**
P Marias	3	**1,638,884**	**–**	**4,411,276**	**6,050,160**	**170,444**
Total emoluments – paid by Telkom		**21,269,067**	**4,362,986**	**30,710,679**	**56,342,732**	**1,856,942**
2011						
Emoluments per prescribed officer:						
NT Moholi		4,935,000	2,206,142	1,616,959	8,758,101	513,240
DJ Fredericks	2	2,209,964	654,901	1,643,240	4,508,105	229,836
TE Msubo	4	599,225	267,878	1,352,862	2,219,965	46,740
GJ Rasethaba		2,365,805	962,977	774,270	4,103,052	178,382
P Marais	3	2,121,532	647,598	1,737,335	4,506,465	220,639
IM Fourie	5	523,386	–	7,529,246	8,052,632	39,463
MJ Nzeku		311,349	1,670,227	12,079,263	14,060,839	81,356
JA Hedberg	6	6,062,642	4,158,258	–	10,220,900	–
TG Msimango	5	729,167	–	8,382,355	9,111,522	66,354
JC Smit	7	1,203,110	383,792	740,976	2,327,878	109,483
Total emoluments – paid by Telkom		21,061,180	10,951,773	35,856,506	67,869,459	1,485,493

The Group has identified EXCO members as prescribed officers because they excercise general executive control over the business.

* *Remuneration has been apportioned based on the period served as prescribed officers.*

** *Fringe and other benefits include motor car insurance, retention agreements, sign-on bonuses, flexible allowance, acting allowances, leave gratuity and voluntary severance packages/voluntary early retirement packages benefits.*

*** *The pension contribution is a company contribution.*

1 *Appointed to EXCO 1 June 2011.*

2 *DJ Fredericks was appointed as acting Chief Financial Officer from August 2010 to July 2011. Thereafter he was appointed as Deputy Chief Financial Officer.*

3 *Retired 31 December 2011.*

4 *Appointed to EXCO 1 January 2011.*

5 *Resigned 31 May 2010.*

6 *Resigned 31 March 2011.*

7 *Acting Chief of Human Resources until 31 December 2010.*

41. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS (continued)

Executive directors' Conditional Share Plan allocation

2012

The Telkom Conditional Share Plan came to an end on 30 June 2010, when final vesting occurred. Refer to note 26.

2011			Share options granted		
Name		Date of grant	Vesting date	Number of shares granted	Grant date fair value
Reuben September	1	8 June 2007	30 June 2010	26,457	R4,659,607
Peter Nelson	2	8 December 2008	30 June 2010	20,031	R2,013,116

Notes

1 Resigned as Telkom Group Chief Executive Officer on 7July 2010.
2 Resigned as Telkom Group Chief Financial Officer on 25 August 2010.

Telkom executive directors' share incentive scheme – movements during 2011

Name	Opening balance	Vested	Forfeited	Closing balance
Reuben September	78 496*	(70,559)	(7,937)	–
Peter Nelson	59 430**	(53,421)	(6,009)	–
	137,926	(123,980)	(13,946)	–

** Included in this amount is a relinquishment of 55,703 Vodacom shares for 52,039 Telkom shares that vested in June 2010.*
***Included in this amount is a relinquishment of 42,212 Vodacom shares for 39,399 Telkom shares that vested in June 2010.*

	2011 Rm	2012 Rm
42. RELATED PARTIES		
Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:		
With shareholders:		
Government of South Africa		
Related party balances		
Trade receivables	354	**371**
Trade payables		
Department of Communications	(371)	**(71)**
Related party transactions		
Revenue	(2,904)	**(3,064)**
Individually significant revenue*	(1,151)	**(1,105)**
City of Cape Town	(95)	**(84)**
Department of Correctional Services	(66)	**(73)**
Department of Health: Gauteng	(65)	**(63)**
Department of Justice	(97)	**(104)**
South African National Defence Force	(68)	**(59)**
South African Police Services	(557)	**(522)**
South African Revenue Services	(49)	**(41)**
S.I.T.A. (Pty) Limited	(154)	**(159)**
Collectively significant revenue	(1,753)	**(1,959)**

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

At 31 March 2012, the Government of South Africa held 39.8% (2011: 39.8%) of Telkom's shares, and has the ability to excercise significant influence, and the Public Investment Corporation held 10.5% (2011: 10.9%) of Telkom's shares.

	2011 Rm	2012 Rm
With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	25	**11**
Trade payables	(1)	**(1)**
Related party transactions		
Revenue	(332)	**(383)**
Expenses	216	**223**
Individually significant expenses	203	**207**
*South African Post Office**	107	**95**
Eskom	84	**107**
South African Broadcasting Corporation	12	**5**
Collectively significant expenses	13	**16**

* *Restated.*

	2011 Rm	2012 Rm
42. RELATED PARTIES *(continued)*		
Major public entities *(continued)*		
Rent received	(28)	**(26)**
Individually significant rent received: *South African Post Office*	(24)	**(22)**
Collectively significant rent received	(4)	**(4)**
Rent paid	24	**21**
Individually significant rent paid: *South African Post Office*	14	**13**
Collectively significant rent paid	10	**8**
Key management personnel compensation:		
(Including directors' and prescribed officers' emoluments)		
Related party transactions		
Short-term employee benefits	137	**188**
Post-employment benefits	7	**8**
Equity compensation benefits	12	**3**

The fair value of shares that vested in the current year is RNil million (2011: R8.9 million).

Transactions with non-executive directors are disclosed in note 41.

Terms and conditions of transactions with related parties

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

43. INTEREST IN MATERIAL SUBSIDIARIES

Country of incorporation:
RSA – Republic of South Africa; NIG – Nigeria; MAU – Mauritius

	Country of incorporation	Issued share capital 2011	Interest in issued ordinary share capital 2011 %	**Issued share capital 2012**	**Interest in issued ordinary share capital 2012 %**
Directory advertising					
Trudon (Pty) Limited	RSA	R100,000	64.9	**R100,000**	**64.9**
Other					
Rossal No 65 (Pty) Limited	RSA	R100	100	**R100**	**100**
Acajou Investments (Pty) Limited	RSA	R100	100	**R100**	**100**
Multi-Links Telecommunications Limited	NIG	NGN300,000,000	100	**–**	**–**
Telkom Management Services (Pty) Limited	RSA	R100	100	**R100**	**100**
Intekom (Pty) Limited	RSA	R10,001,000	100	**R10,001,000**	**100**
Q-Trunk (Pty) Limited	RSA	R10,001,000	100	**R10,001,000**	**100**
Telkom International (Pty) Limited	RSA	R100	100	**R100**	**100**
Swiftnet (Pty) Limited	RSA	R5,000,000	100	**R5,000,000**	**100**
iWayAfrica Group*	RSA	–	–	**–**	**–**
Number Portability Company **	RSA	R100	20	**R100**	**20**
Satellite Data Networks Mauritius (Pty) Limited **	MAU	USD2016	40	**USD2016**	**40**

* *During the 2011 year management initiated the integration of MWEB Africa Limited and Africa Online Limited subsidiaries under the brand of iWayAfrica Group.*

***Number Portability Company and Satellite Data Networks Mauritius (Pty) Limited are classified as joint ventures.*

43. INTEREST IN MATERIAL SUBSIDIARIES *(continued)*

Interest in operating profits from subsidiaries and joint ventures***

	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
2012				
Trudon (Pty) Limited	**1,166**	**538**	**502**	**358**
Rossal No 65 (Pty) Limited	**–**	**–**	**–**	**(2)**
Acajou Investments (Pty) Limited	**–**	**–**	**–**	**(2)**
Multi-Links Telecommunications Limited (discontinued operations)	**–**	**–**	**–**	**(269)**
Telkom Management Services (Pty) Limited	**–**	**–**	**–**	**–**
Intekom (Pty) Limited	**–**	**10**	**10**	**10**
Q-Trunk (Pty) Limited	**–**	**4**	**4**	**4**
Telkom International (Pty) Limited	**–**	**125**	**125**	**146**
Swiftnet (Pty) Limited	**95**	**27**	**8**	**6**
iWayAfrica Group	**353**	**(34)**	**(651)**	**(678)**
Number Portability Company	**–**	**–**	**–**	**1**
Satellite Data Networks Mauritius (Pty) Limited	**–**	**–**	**–**	**2**
Cell Captive	**–**	**6**	**6**	**204**
Telkom Foundation	**–**	**10**	**10**	**10**
Guardrisk SPE	**–**	**–**	**–**	**–**
2011				
Trudon (Pty) Limited	1,152	552	514	338
Rossal No 65 (Pty) Limited	–	–	–	(2)
Acajou Investments (Pty) Limited	–	6	6	10
Multi-Links Telecommunications Limited	145	(216)	(335)	(1,229)
Telkom Management Services (Pty) Limited	–	(28)	(28)	(28)
Intekom (Pty) Limited	–	10	10	12
Q-Trunk (Pty) Limited	–	4	4	4
Telkom International (Pty) Limited	–	–	–	19
Swiftnet (Pty) Limited	100	25	8	8
iWayAfrica Group	396	(38)	(139)	(167)
Number Portability Company	–	–	–	–
Satellite Data Networks Mauritius (Pty) Limited	–	–	–	–
Cell Captive	–	(1)	(1)	157
Telkom Foundation	–	–	–	–
Guardrisk SPE	–	(2)	(2)	(2)

**** Amounts shown are after eliminations and reflects the results which contribute to the Group results.*

Indebtness of Telkom subsidiary companies*	2011 Rm	2012 Rm
Rossal No 65 (Pty) Limited	(289)	**(284)**
Acajou Investments (Pty) Limited	(164)	**(164)**
Multi-Links Telecommunications Limited	2,855	**–**
Telkom Management Services (Pty) Limited	44	**45**
Intekom (Pty) Limited	(48)	**(58)**
Q-Trunk (Pty) Limited	13	**8**
Telkom International (Pty) Limited	2,482	**2,481**
iWayAfrica Group	270	**362**

** Amounts payable to/(receivable from) Telkom SA SOC Limited.*

44. SUBSEQUENT EVENTS

Dividends

The Telkom Board declared an ordinary dividend of Nil cents (2011: 145 cents) per share.

Repayment of TL12 bond

The TL12 bond of R1,060 million was repaid on maturity at the end of April 2012.

Telkom and KT Corporation

During the 2012 financial year, Telkom and KT Corporation announced that they had reached, in principle, an agreement on the terms of the potential strategic venture.

On 1 June 2012 Telkom announced that it has been informed by the Honourable Minister of Communications that the proposed transaction between the companies had been presented to cabinet on 30 May 2012 and that cabinet had taken the decision not to support the transaction as proposed.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2012 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

COMPANY FINANCIAL STATEMENTS

Company statement of comprehensive income

for the year ended 31 March 2012

	Notes	2011 Rm	**2012 Rm**
Total revenue	3.1	32,540	**32,262**
Operating revenue	3.2	31,712	**31,510**
Other income	4	534	**437**
Operating expenses		29,132	**30,979**
Employee expenses	5.1	9,366	**8,291**
Payments to other operators	5.2	5,350	**5,288**
Selling, general and administrative expenses	5.3	6,060	**8,224**
Service fees	5.4	2,837	**2,952**
Operating leases	5.5	709	**757**
Depreciation, amortisation, impairment, write-offs and losses	5.6	4,810	**5,467**
Results from operating activities		3,114	**968**
Investment income	6	470	**367**
Finance charges and fair value movements	7	1,226	**745**
Interest		895	**763**
Foreign exchange and fair value movements		331	**(18)**
Profit before taxation		2,358	**590**
Taxation	8	793	**766**
Profit/(loss) for the year		1,565	**(176)**
Other comprehensive income			
Defined benefit plan actuarial (losses)/gains	27	(743)	**64**
Defined benefit plan asset limitations	27	584	**–**
Income tax relating to components of other comprehensive income	9	45	**(18)**
Other comprehensive income for the year net of taxation		(114)	**46**
Total comprehensive income/(loss) for the year		1,451	**(130)**
Dividend per share (cents)	10	300	**145**

Company statement of financial position

at 31 March 2012

	Notes	2011 Rm	**2012 Rm**
ASSETS			
Non-current assets		42,659	**40,906**
Property, plant and equipment	11	36,861	**35,979**
Intangible assets	12	3,445	**3,418**
Investments in subsidiaries	13.1	868	**202**
Other investments	14	989	**968**
Defined benefit plan asset	27	50	**47**
Other financial assets	20	193	**48**
Finance lease receivables	16	239	**244**
Deferred taxation	17	14	**–**
Current assets		9,390	**9,238**
Inventories	18	1,005	**879**
Income tax receivable	33	91	**–**
Current portion of finance lease receivables	16	118	**128**
Trade and other receivables	19	4,803	**4,951**
Current portion of other financial assets	20	1,663	**2,185**
Cash and cash equivalents	21	1,710	**1,095**
Asset held for sale	13.2	319	**–**
Total assets		52,368	**50,144**
EQUITY AND LIABILITIES			
Capital and reserves		27,992	**27,107**
Share capital	22	5,208	**5,208**
Treasury share reserve	23	(775)	**(775)**
Share-based compensation reserve	24	–	**–**
Retained earnings		23,559	**22,674**
Non-current liabilities		14,947	**12,672**
Interest bearing debt	25	8,189	**5,891**
Employee-related provisions	26.1	4,690	**4,860**
Other provisions	26.2	39	**34**
Other financial liabilities	20	69	**26**
Deferred revenue	28	1,073	**1,132**
Deferred taxation	17	887	**729**
Current liabilities		9,429	**10,365**
Trade and other payables	29	5,449	**5,005**
Shareholders for dividend	34	21	**23**
Current portion of interest bearing debt	25	155	**1,287**
Current portion of employee-related provisions	26.1	1,911	**1,631**
Current portion of other provisions	26.2	13	**231**
Current portion of deferred revenue	28	1,742	**1,968**
Income tax payable	33	–	**85**
Current portion of other financial liabilities	20	127	**133**
Credit facilities utilised	21	11	**2**
Total liabilities		24,376	**23,037**
Total equity and liabilities		52,368	**50,144**

Company statement of changes in equity

for the year ended 31 March 2012

	Attributable to equity holders of Telkom				
	Share capital Rm	Treasury share reserve Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm
Opening balance at 1 April 2010	5,208	(1,175)	2,060	21,924	28,017
Total comprehensive income for the year	–	–	–	1,451	1,451
Profit for the year	–	–	–	1,565	1,565
Other comprehensive income	–	–	–	(114)	(114)
Net defined benefit plan losses	–	–	–	(114)	(114)
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	–	400	(2,060)	184	(1,476)
Dividends paid (refer to note 34)	–	–	–	(1,562)	(1,562)
Transfer compensation reserve to equity (refer to note 24)	–	–	(1,746)	1,746	–
Increase in share-based compensation reserve (refer to note 24)	–	–	86	–	86
Shares vested and re-issued (refer to note 24)	–	400	(400)	–	–
Balance at 31 March 2011	5,208	(775)	–	23,559	27,992
Balance at 1 April 2011	**5,208**	**(775)**	**–**	**23,559**	**27,992**
Total comprehensive loss for the year	**–**	**–**	**–**	**(130)**	**(130)**
Loss for the year	**–**	**–**	**–**	**(360)**	**(360)**
Other comprehensive income	**–**	**–**	**–**	**46**	**46**
Net defined benefit plan gains	**–**	**–**	**–**	**46**	**46**
Transactions with owners recorded directly in equity					
Contributions by and distributions to owners	**–**	**–**	**–**	**(755)**	**(755)**
Dividends paid (refer to note 34)	**–**	**–**	**–**	**(755)**	**(755)**
Balance at 31 March 2012	**5,208**	**(775)**	**–**	**22,674**	**27,107**

Company statement of cash flows

for the year ended 31 March 2012

	Notes	2011 Rm	**2012 Rm**
Cash flows from operating activities		6,142	**5,924**
Cash receipts from customers		31,366	**31,203**
Cash paid to suppliers and employees		(22,761)	**(23,688)**
Cash generated from operations	30	8,605	**7,515**
Interest received		573	**445**
Dividend received	31	133	**146**
Finance charges paid	32	(664)	**(674)**
Taxation paid	33	(941)	**(753)**
Cash generated from operations before dividend paid		7,706	**6,679**
Dividend paid	34	(1,564)	**(755)**
Cash flows from investing activities		(5,632)	**(4,719)**
Proceeds on disposal of property, plant and equipment and intangible assets		291	**103**
Additions to property, plant and equipment and intangible assets		(4,461)	**(4,514)**
Acquisition of joint venture	14	(9)	**–**
Loans to subsidiaries advanced		(1,453)	**(308)**
Cash flows from financing activities		(2,462)	**(1,804)**
Loans raised		980	**1,092**
Loans repaid		(2,255)	**(2,343)**
Payment of finance leases		(169)	**(175)**
Increase in net financial assets		(1,018)	**(378)**
Net decrease in cash and cash equivalents		(1,952)	**(599)**
Effect of foreign exchange rate differences on cash and cash equivalents		(6)	**(7)**
Net cash and cash equivalents at the beginning of the year		3,657	**1,699**
Net cash and cash equivalents at the end of the year	21	1,699	**1,093**

1. CORPORATE INFORMATION

Telkom SA SOC Limited (the Company) is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The Company's main objective and main business is to supply telecommunication, broadcasting, multimedia, technology, information and other related information technology services to the general public as well as mobile communication services in South Africa and certain other African countries. The principal activities of the Company's services and products include:

- Fixed-line subscription and connection services to post-paid, pre-paid and private payphone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Service Digital Network) lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- Fixed-line traffic services to post-paid, pre-paid 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 centre operations and internet services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services;
- W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services; and
- Mobile communication services, including voice services, data services and handset sales through its mobile brand called "8•ta".

These separate annual financial statements are prepared in compliance with the South African Companies Act, 2008. In addition, Telkom Group presents consolidated financial statements which include all subsidiaries and special purpose entities which are included in these financial statements as investments.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements comply with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the Companies Act of South Africa, 2008.

These financial statements are presented in South African Rand, which is the Company's functional currency. All financial information presented in Rand has been rounded to the nearest million.

The Company financial statements were authorised for issue by the Board of Directors on 7 June 2012.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments which are measured at fair value and share-based payments which are measured at grant date fair value. Details of the Company's significant accounting policies are set out below, and are consistent with those applied in the previous financial year.

Adoption of amendments to standards and new interpretations

The following new standards, amendments to standards and interpretations which are mandatory for financial periods beginning after 1 January 2011 have been adopted and do not have a material impact on the Company:

IFRS 7 Financial Instruments Disclosures

The amendment emphasises the link between qualitative and quantitative disclosures to enable users of financial statements to form an overall picture of the nature and extent of risks arising from financial instruments. Detailed IFRS 7 disclosures are provided in note 15.

IAS 1 Presentation of Financial Statements

The amendment requires entities to present for each component of equity, an analysis of other comprehensive income either in the statement of changes in equity or in the notes. The Company provides this analysis in note 9.

IAS 27 (amendment) Consolidated and Separate Financial Statements – Transition requirements for amendments arising as a result of IAS 21 The Effects of Changes in Foreign Exchange Rates

IFRIC14 (amendment) IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Voluntary Prepaid Contributions

Standards and interpretations in issue not yet adopted and not yet effective

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective and their impact is still being assessed:

IFRS 7 Financial Instruments Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities *(effective 1 January 2013)*

IFRS 7 Financial Instruments Disclosures – Amendments requiring disclosures about the initial application of IFRS 9 *(effective 1 January 2015)*

IFRS 9 Financial Instruments – Classification and measurement of financial assets and financial liabilities *(effective 1 January 2015)*

IFRS 11 Joint Arrangements *(effective 1 January 2013)*

IFRS 12 Disclosure of Interests in Other Entities *(effective 1 January 2013)*

IFRS 13 Fair Value Measurements *(effective 1 January 2013)*

IAS 1 Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented *(effective 1 July 2012)*

IAS 1 Presentation of Financial Statements – Amendments to clarify the requirements for comparative information *(effective 1 January 2013)*

IAS 12 Income Taxes – Limited scope amendment (recovery of underlying assets) *(effective 1 January 2012)*

IAS 16 Property, Plant and Equipment – Classification of service equipment *(effective 1 January 2013)*

IAS 19 Employee Benefits – Amended Standard resulting from the Post-Employment Benefits, Short-Term Employee

Benefits and Termination Benefits projects *(effective 1 January 2013)*

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Standards and interpretations in issue not yet adopted and not yet effective *(continued)*

IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) *(effective 1 January 2013)*

IAS 28 Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) *(effective 1 January 2013)*

IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities *(effective 1 January 2014)*

IAS 32 Financial Instruments: Presentation – Amendments to clarify tax effect of distribution to holders of equity instruments *(effective 1 January 2013)*

Significant accounting judgements, estimates and assumptions

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 and assumptions are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may ultimately differ from those estimates and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Company 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 Company's accounting policies. These, together with the key estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting 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 and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry as well as the Company'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. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate.

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 expected future cash flows and the discount rate used to determine its present value 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 as indicated on notes 11 and 12. 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 services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The Company 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. Value in use is calculated using the discounted cash flow valuation method. 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 the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer bases and market share. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of any impairment.

In calculating value-in-use, consideration is given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in calculation of value-in-use). For start-up operation, cash flow projections for a period of longer than five years may be uesd if the projections are reliable and demonstrable. Management judgement is applied in assessing if these requirements are met. If such a valuation is used, it is adjusted for this increased uncertainty by using an appropriately adjusted discount rate.

Customer relationship periods

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue. Management makes judgements about the customer relationship period estimate based on the historical churn information. The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationship periods are accounted for as a change in accounting estimates.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Significant accounting judgements, estimates and assumptions *(continued)*

Impairment of receivables

An impairment is recognised on trade receivables that are assessed to be impaired (refer to notes 15 and 19). 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.

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 deferred taxation credits, management needs to determine the extent that future obligations are likely to be available for set-off against the deferred tax asset. In the event that the assessment of future payments and future utilisation changes, the change in the recognised deferred tax asset is recognised in profit or loss.

Taxation

The taxation rules and regulations in South Africa are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African taxation laws to further develop through changes in South Africa's existing taxation structure as well as clarification of the existing taxation laws through published interpretations and the resolution of actual tax cases (refer to notes 8 and 17).

Management has made a judgement in the previous year that all outstanding tax credits relating to secondary tax on companies (STC) will be available for utilisation before the tax regime change, from STC to withholding tax becomes effective. The new withholding tax on dividends will be effective for dividends that are declared after 1 April 2012. Any unutilised credits are reversed at year-end.

The Company is regularly subject to evaluation by the South African tax authorities of its historical income 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 Company. These disputes may not necessarily be resolved in a manner that is favourable for the Company. Additionally the resolution of the disputes could result in an obligation for the Company that exceeds management's estimate. The Company has historically filed, and continues to file, all required income tax returns. Management believes that the principles applied in determining the Company's tax obligations are consistent with the principles and interpretations of the South African tax laws.

Deferred taxation rate

Management makes judgements on the tax rate applicable based on the Company's expectations at the reporting date on how the asset is expected to be recovered or the liability is expected to be settled.

Employee benefits

The Company provides defined benefit plans for certain post-employment benefits. The Company'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 27. The assumptions determined by management make use of information obtained from the Company'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-employment 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 provided 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. The Telkom Conditional Share Plan was concluded during June 2010 after the final vesting.

Leases

The Company provides customer specific solutions to certain entities using access network equipment. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the equipment and accounts for the contracts as finance leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether 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, even if that right is not explicitly specified in an arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant accounting judgements, estimates and assumptions *(continued)*

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes 26 and 36, 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 Company 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 reporting date.

Summary of significant accounting policies

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added-tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company provides fixed-line, mobile and data communication services and communication-related products. The Company 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 is recognised when there is evidence of an arrangement, collectability is probable, 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 consideration of each component is allocated on a relative fair value basis.

Dealer incentives

The Company provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer. Revenue is recognised net of discounts when the discounts are granted to the customer.

Fixed-line

Subscriptions, connections and other usage

The Company provides telephone and data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred and recognised 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 pre-paid 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)

Pre-paid

Pre-paid 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 pre-paid products allow for the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration.

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.

Post-paid

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 Company provides data communication services under post-paid and pre-paid 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 pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services

Included in other revenue are directory services. Revenue is recognised when printed 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 Company and the earnings process is complete.

Deferred revenue and expenses

Activation revenue and costs are 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. Any excess of the costs over revenues is expensed immediately.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Mobile

Post-paid contract and pre-paid products

Contract products 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 selling price standalone basis as a percentage of the aggregated fair value of individual deliverables.

- Revenue from the handset is recognised when the handset is delivered.
- 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 commencing on activation date. Unused airtime is deferred and recognised on the month of usage or on termination of the contract by the subscriber.
- Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer.
- Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires.
- Free minutes are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire.

Roaming agreements

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A pre-payment to this effect is recognised if it is probable that Telkom will obtain future economic benefits from such unused minutes.

Equipment sales

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the equipment to an end-customer by the intermediary or the expiry of the right of return.

Customer Loyalty Programmes

The free minutes (award credits) granted to Telkom Mobile prepaid customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits takes into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit.

Connection incentives

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.

Interest on debtors' accounts

Interest is raised on overdue accounts by using the effective interest rate method and recognised in profit or loss.

Incentives

Incentives paid to service providers and dealers for products delivered to the customers 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.

Marketing

Marketing costs are recognised as an expense as incurred.

Investment income

Dividends from investments are recognised on the date that the Company 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 reporting date.

Deferred taxation

Deferred taxation is accounted for using the statement of financial position liability method on all temporary differences at the reporting date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred taxation 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 taxation 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 taxation assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised. In respect of deductible temporary differences associated with investments in subsidiaries 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 taxation relating to equity items or other comprehensive income is recognised directly in other comprehensive income and not in profit or loss.

Deferred taxation 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 reporting date.

Deferred taxation assets and deferred taxation 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Secondary taxation on companies

Secondary taxation on companies (STC) was provided for at a rate of 10% on the amount by which dividends declared by the Company exceed dividends received. Previously deferred tax on unutilised STC credits was recognised to the extent that STC payable on future dividend payments was likely to be available for set-off. STC is no longer effective from 1 April 2012. The new withholding tax at 15% becomes effective from this date.

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 Company 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 or the date the asset is derecognised. Idle assets continue to attract depreciation.

The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis at reporting 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 Company 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 reporting date.

Assets under construction represent freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but exclude 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 Company 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	1 to 7
Network equipment	
Cables	20 to 40
Switching equipment	5 to 18
Transmission equipment	5 to 18
Other	2 to 20
Support equipment	5 to 13
Furniture and office equipment	11 to 15
Data processing equipment and software	5 to 10
Other	2 to 20

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 profit or loss 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 Company will obtain ownership by the end of the lease term.

Intangible assets

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 Company 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, the amortisation methods used and their useful lives are reviewed on an annual basis at the reporting date.

Assets under construction represent application and other non-integral software and include all direct expenditure as well as related borrowing costs capitalised, but exclude the costs of abnormal amounts of waste material, labour or other resources incurred in the production of self-constructed assets.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

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 profit or loss in the year in which they arise.

The expected useful lives assigned to intangible assets are:

	Years
Software	5 to 10
Trademarks, copyrights and other	4 to 13
Connection Incentive Bonus	2

For the Connection Incentive Bonus intangible asset, refer to the 'Connection Incentives' accounting policy under Mobile Revenue Recognition.

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment 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.

Impairment of property, plant and equipment and intangible assets

The Company regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the assets' or cash-generating units' 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. The discount rate used is the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 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 profit or loss 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.

Repairs and maintenance

The Company expenses all costs associated with day-to-day repairs and maintenance, unless it is probable that such costs would result in future economic benefits flowing to the Company, 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 Company borrowings was utilised. Other borrowing costs are expensed as incurred.

Subsidiaries and joint venture

Investments in subsidiaries, special purpose entities and joint ventures are carried at cost and adjusted for any impairment losses.

Inventories

Merchandise, installation material, maintenance and network equipment inventories are stated at the lower of cost, determined on a weighted average basis and 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.

Telkom Mobile's inventory cost is determined according to the First-In-First-Out basis.

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 Company becomes a party to the 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 Company classifies financial assets as at 'fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' or 'available-for-sale'. Financial liabilities are classified as 'at fair value through profit or loss' or 'other financial liabilities'. The measurement of each is set out below and presented in a table in note 15.

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 reporting 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 Company classifies financial assets that are held for trading in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the future. Derivatives and embedded 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 finance charges and fair value movements for the year. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

Held-to-maturity financial assets

The Company classifies non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity when the Company has the positive intention and ability to hold the investment to maturity. 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 profit or loss when the investments are sold or impaired as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Such assets are carried at amortised cost using the effective interest method. Trade receivables are subsequently measured at the original invoice amount less impairment where the effect of discounting is not material. Gains and losses are recognised in profit or loss when the assets are sold or impaired as well as through the amortisation process.

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 held for trading.

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 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, with interest expense recognised in finance charges and fair value movements, on an effective interest rate 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

A financial guarantee contract is initially measured at fair value which is the fair value of the consideration given. Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, or the amount initially recognised less, when appropriate, cumulative amortisation, recognised in accordance with IAS 18 Revenue.

Cash and cash equivalents

Cash and cash equivalents are subsequently measured at amortised cost. This comprises 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Repurchase agreements

Securities sold under repurchase agreements are not derecognised. These transactions are treated as collateralised arrangements and classified as non-trading financial liabilities and carried at amortised cost.

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as other financial assets. Loans are recorded at amortised cost.

All associated finance charges are taken to the statement of comprehensive income.

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 the Company is a buyer and seller of last resort are carried at fair value. The Company does not actively trade in bonds.

Derecognition

A financial instrument or a portion of a financial instrument is derecognised and a gain or loss recognised when the Company'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 other comprehensive income 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 reporting 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. For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

Summary of significant accounting policies

(continued)

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

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 other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. The recoverable amount of financial assets carried 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 equity instruments classified as available-for-sale or carried at cost that are not reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed the value that would have been its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit and loss. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised through profit or loss.

Remeasurement of embedded derivatives

The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when it first becomes party to the contract. The Company re-assesses the contract 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.

Financial instruments: Disclosures

The Company groups its financial instruments into classes of similar instruments and where disclosure is required, it discloses them by class. It also discloses information about the nature and extent of risks arising from its financial instruments (refer to note 15).

Foreign currencies

The functional and presentation currency of the Company 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 reporting 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Treasury shares

Where the Company acquires, or in substance acquires its own shares, such shares are measured at acquisition 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 Company's own equity instruments. Such shares are not remeasured for changes in fair value.

Where the Company 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 is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the Company itself or by its shareholders or was settled by the Company itself or its shareholders.

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 Company 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 IAS 17 to determine if the arrangement should be recognised as a finance lease or an operating lease. This is also applied when assessing indefeasible rights to use (IRUs).

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impractical to do so.

Lessee

Operating lease payments are recognised in profit or loss on a straight-line basis over the lease term.

Assets acquired in terms of finance leases are capitalised at the lower of fair value and 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 and the lease term. The capital element of future obligations under the leases is included as a liability in the statement of financial position. Lease finance costs are amortised in profit or loss over the lease term using the interest rate implicit in the lease. 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 profit or loss over the term of the lease.

Lessor

Operating lease revenue is recognised in profit or loss on a straight-line basis over the lease term.

Assets held under a finance lease are recognised in the statement of financial position 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 Company provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Company, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Summary of significant accounting policies *(continued)*

Employee benefits *(continued)*

Defined contribution plans

The Company'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 Company provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Company'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 reported in the statement of financial position 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 a defined benefit asset 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 in the current period and no loss is recognised solely as a result of an actuarial gain in the current period.

The Company accounts for actuarial gains and losses, recognised directly in other comprehensive income in the period in which they occur. The Company believes that recognising actuarial gains and losses in other comprehensive income results in better disclosures in the statement of financial position.

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 entitlement 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.

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 reporting date of the number of equity instruments that are expected to vest. The scheme came to an end with the last vesting in June 2010.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the year the employees render services, unless the Company 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.

Provisions

Provisions are recognised when the Company 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 reporting 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.

		2011 Rm	2012 Rm
3.	**REVENUE**		
3.1	**Total revenue**	32,540	**32,262**
	Operating revenue	31,712	**31,510**
	Other income – excluding profit on disposal of property, plant and equipment, intangible assets and deferred profit (refer to note 4)	358	**385**
	Investment income (refer to note 6)	470	**367**
3.2	**Operating revenue**	31,712	**31,510**
	Subscriptions, connections and other usage	6,763	**6,900**
	Telkom mobile	75	**1,108**
	Traffic	12,046	**11,079**
	Domestic (local and long distance)	4,425	**3,775**
	Fixed-to-mobile	5,259	**5,231**
	International (outgoing)	725	**496**
	Subscription based calling plans	1,637	**1,577**
	Interconnection	1,677	**1,753**
	Data	10,774	**10,363**
	Sundry revenue	377	**307**

Operating revenue decreased mainly due to lower traffic revenue as a result of mobile substitution and competition from Value-Added Network Services and lower data revenue as a result of the inclusion of the revenue generated during the 2010 FIFA World Cup in the prior year, offset by an increase in mobile revenue.

		2011 Rm	2012 Rm
4.	**OTHER INCOME**	534	**437**
	Other income (included in total revenue, refer to note 3)	358	**385**
	Interest received from trade receivables	249	**215**
	Interest received from subsidiaries	14	**7**
	Sundry income	95	**163**
	Profit on disposal of property, plant and equipment and intangible assets	176	**52**

The increase in sundry income is attributable mainly due to the transfer of funds from the sinking fund to the annuity policy which resulted in R25 million being recognised in income. The balance of the increase is mainly attributable to income recognised on asset donations.

The decrease in the profit on disposal of assets is mainly due to a finance lease arrangement relating to indefeasible rights of use (IRUs) in respect of the S3SW and EIG cable system entered into in the prior year resulting in the derecognition of those assets.

		2011 Rm	2012 Rm
5.	**OPERATING EXPENSES**		
	Operating expenses comprise:		
5.1	**Employee expenses**	9,366	**8,291**
	Salaries and wages	6,807	**6,751**
	Retirement contributions (defined contribution plan)	568	**558**
	Post-retirement pension and retirement fund (refer to note 27)	(160)	**(88)**
	Current service cost	5	**5**
	Interest cost	670	**737**
	Expected return on plan assets	(783)	**(830)**
	Curtailment gain	(52)	**–**
	Post-retirement medical aid (refer to note 27)	422	**468**
	Current service cost	114	**106**
	Interest cost	586	**568**
	Expected return on plan asset	(237)	**(208)**
	Curtailment (gain)/loss	(41)	**2**
	Telephone rebates (refer to note 27)	67	**56**
	Current service cost	7	**7**
	Interest cost	50	**47**
	Past service cost	2	**2**
	Curtailment loss	8	**–**
	Share-based compensation expense (refer to note 24)	86	**–**
	Other benefits*	2,011	**1,053**
	Employee expenses capitalised	(435)	**(507)**

* *Other benefits include annual leave, performance incentive, service bonuses, skills development and voluntary employee severance package expenses.The decrease is attributable to the VSP and VERP process implemented in the prior year.*

The share-based compensation expense has decreased by R86 million due to the final vesting in June 2010.

		2011 Rm	2012 Rm
5.2	**Payments to other operators**	5,350	**5,288**

Payments to other network operators consist of expenses in respect of interconnection with other network operators.

The decrease was mainly driven by payments to mobile operators due to mobile termination rates reduction from 1 March 2011.

		2011 Rm	2012 Rm
5.	**OPERATING EXPENSES** *(continued)*		
5.3	**Selling, general and administrative expenses**	6,060	**8,224**
	Selling and administrative expenses	2,173	**2,713**
	Maintenance	2,416	**2,672**
	Marketing	899	**1,025**
	Mobile direct costs and dealer incentives	78	**1,019**
	Dealer Incentives – Fixed line	132	**153**
	Debtors impairment (refer to note 19)	362	**642**

Included in the current year's selling and administrative expenses is a total impairment loss of R319 million (2011: R665 million) which has been recognised on investments and loans to Multi-Links. Also included in the current year's selling and administrative expenses is an impairment loss of R115 million (2011: R251 million) relating to iWayAfrica.

The increase in maintenance is attributable mainly to Telkom Mobile for the maintenance of data and processing equipment. Increased payments to sub-contractors for the running costs of the flagship stores also contributed to the increase.

The increase in marketing costs can be attributable to Telkom Mobile for the pre-launching of campaigns and marketing activity.

The increase in mobile direct costs can be attributable to the increase in the connection incentive bonus.

		2011 Rm	2012 Rm
5.4	**Service fees**	2,837	**2,952**
	Facilities and property management	1,467	**1,503**
	Consultancy services	319	**497**
	Security and other	1,003	**892**
	Auditors' remuneration	48	**60**
	Audit services	39	**44**
	Company auditors	39	**44**
	Current year	39	**44**
	Other services	9	**16**
5.5	**Operating leases**	709	**757**
	Land and buildings	205	**282**
	Equipment	51	**29**
	Vehicles	453	**446**
5.6	**Depreciation, amortisation, impairment, write-offs and losses**	**4,810**	**5,467**
	Depreciation of property, plant and equipment (refer to note 11)	3,947	**4,556**
	Amortisation of intangible assets (refer to note 12)	676	**657**
	Write-offs and losses of property, plant and equipment and intangible assets	187	**254**

In recognition of the changed usage patterns of certain items of property, plant and equipment and intangible assets, the Company reviews their remaining useful lives quarterly.

As a result of rolling out of the Next Generation Network transformation programme, the Company re-assessed the useful lives of certain individual legacy equipment. This had the effect of increasing depreciation expense for the year ended 31 March 2012 by R605 million (March 2011: R112 million).

Included in the current year's amortisation of intangible assets is an amount of RNil million (2011: R47 million) relating to the FIFA brand intangible asset.

		2011 Rm	2012 Rm
6.	**INVESTMENT INCOME**	470	**367**
	Interest income	197	**197**
	Dividend income from subsidiaries	273	**170**

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss.

		2011 Rm	2012 Rm
7.	**FINANCE CHARGES AND FAIR VALUE MOVEMENTS**	1,226	**745**
	Finance charges on interest bearing debt	895	**763**
	Local and foreign debt	1,012	**857**
	Less: Finance charges capitalised	(117)	**(94)**
	Foreign exchange losses/(gains) and fair value movement	331	**(18)**
	Foreign exchange losses	27	**19**
	Fair value adjustments on derivative instruments	304	**(37)**
	Capitalisation rate for borrowing cost	11.4%	**10.8%**

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

Included in finance charges is an amount of R763 million (2011: R895 million) which relates to interest expense on financial liabilities not measured at fair value through profit or loss.

Fair value adjustments on derivative instruments were due to currency and interest rates fluctuations impacting on forward exchange contracts, cross currency swaps and interest rate swap agreements.

		2011 Rm	2012 Rm
8.	**TAXATION**	793	**766**
	South African normal company taxation	548	**882**
	Current taxation	757	**903**
	Overprovision for prior year	(209)	**(21)**
	Deferred taxation (refer to note 17)	109	**(163)**
	Temporary differences – normal company taxation	89	**(179)**
	Temporary difference – secondary taxation on companies (STC) credits (raised)/utilised	(7)	**14**
	Underprovision for prior year	27	**2**
	Secondary taxation on companies	136	**47**
	Reconciliation of taxation rate	%	**%**
	Effective rate	33.6	**129.8**
	South African normal rate of taxation	28.0	**28.0**
	Adjusted for:	5.6	**101.8**
	Exempt income	(6.2)	**(16.9)**
	Disallowable expenditure	12.1	**114.6**
	STC taxation credits (raised)/utilised	(0.3)	**2.4**
	STC taxation charge	5.8	**7.9**
	Other	1.9	**(3.0)**
	Net underprovision for prior year	(7.7)	**(3.2)**

The Company has historically filed, and continues to file, all required income tax returns. Management believes that the principles applied in determining the Company's tax obligations are consistent with the principles and interpretations of South Africa's tax laws.

The sharp increase in the effective tax rate is mainly due to non-deductible expenditure and the impairment of investments as well as expenditure of a capital nature.

		2011 Rm	2012 Rm
9.	**TAXATION EFFECTS OF OTHER COMPREHENSIVE INCOME**		
	Defined benefit plan actuarial (losses)/gains	(743)	**64**
	Tax effect of defined benefit plan actuarial losses/(gains)	208	**(18)**
	Net defined benefit plan actuarial (gains)/losses	(535)	**46**
	Defined benefit plan asset limitations	584	**–**
	Tax effect of defined benefit plan asset limitations	(163)	**–**
	Net defined benefit plan asset limitations	421	**–**
	Other comprehensive income for the year before taxation	(159)	**64**
	Tax effect of other comprehensive income for the year	45	**(18)**
	Other comprehensive income for the year net of taxation	(114)	**46**

	2011	2012
10. DIVIDEND PER SHARE		
Dividend per share (cents)	300	**145**

The calculation of dividend per share is based on dividends of R756 million (2011: R1,564 million) and 520,783,900 (2011: 520,783,900) number of ordinary shares outstanding on the date of dividend declaration.

	2011			2012		
	Cost Rm	Accumulated depreciation Rm	Carrying value Rm	**Cost Rm**	**Accumulated depreciation Rm**	**Carrying value Rm**
11. PROPERTY, PLANT AND EQUIPMENT						
Freehold land and buildings	5,618	(2,471)	3,147	**5,898**	**(2,671)**	**3,227**
Leasehold buildings	433	(303)	130	**432**	**(306)**	**126**
Network equipment	62,030	(33,393)	28,637	**62,974**	**(34,344)**	**28,630**
Support equipment	4,030	(2,763)	1,267	**3,750**	**(2,628)**	**1,122**
Furniture and office equipment	364	(284)	80	**300**	**(230)**	**70**
Data processing equipment and software	5,347	(3,767)	1,580	**5,255**	**(3,952)**	**1,303**
Under construction	1,830	–	1,830	**1,316**	**–**	**1,316**
Other	716	(526)	190	**746**	**(561)**	**185**
	80,368	(43,507)	36,861	**80,671**	**(44,692)**	**35,979**

Fully depreciated assets with a cost of R2,509 million (2011: R967 million) were derecognised in the 2012 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 R104 million (2011: R122 million) has been pledged as security. Details of the loans are disclosed in note 25.

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Impairment and write-offs Rm	Disposals Rm	Depre-ciation Rm	Carrying value at end of year Rm
2012							
Freehold land and buildings	**3,147**	**197**	**124**	**(3)**	**(3)**	**(235)**	**3,227**
Leasehold buildings	**130**	**–**	**–**	**–**	**(1)**	**(3)**	**126**
Network equipment	**28,637**	**2,534**	**1,179**	**(78)**	**(126)**	**(3,516)**	**28,630**
Support equipment	**1,267**	**107**	**31**	**10**	**–**	**(293)**	**1,122**
Furniture and office equipment	**80**	**1**	**2**	**–**	**–**	**(13)**	**70**
Data processing equipment and software	**1,580**	**164**	**34**	**(45)**	**–**	**(430)**	**1,303**
Under construction	**1,830**	**931**	**(1,415)**	**(30)**	**–**	**–**	**1,316**
Other	**190**	**33**	**28**	**–**	**–**	**(66)**	**185**
	36,861	**3,967**	**(17)**	**(146)**	**(130)**	**(4,556)**	**35,979**
2011							
Freehold land and buildings	3,020	214	139	(2)	–	(224)	3,147
Leasehold buildings	150	–	(1)	(2)	–	(17)	130
Network equipment	28,910	1,947	1,064	(129)	(165)	(2,990)	28,637
Support equipment	1,394	123	54	(24)	–	(280)	1,267
Furniture and office equipment	95	3	(3)	–	–	(15)	80
Data processing equipment and software	1,649	236	55	(3)	–	(357)	1,580
Under construction	1,648	1,528	(1,326)	(20)	–	–	1,830
Other	243	11	8	(8)	–	(64)	190
	37,109	4,062	(10)	(188)	(165)	(3,947)	36,861

Full details of land and buildings are available for inspection at the registered office of the Company.

Capital expenditure of 41% relates to the expansion of existing networks and services. Expansion of the Mobile Network also contributed to the growth of PPE with a contribution of 27%. Five percent of capital expenditure contributed to the new Next Generation Network programme. The balance of 27% capital expenditure is mainly attributable to investment in Submarine cable systems, Network Evolution initiatives, Sustainment programmes, Business Support Systems and Operational Support Systems and Property upgrade and growth projects. An extensive build programme that provides capacity for growth in services, with focus on Next Generation Network and Mobile technologies is expected to continue over the next few years.

Impairment of property, plant and equipment was mainly as a result of outdated technologies.

An amount of R40 million (2011: R39 million) under property, plant and equipment disposals relates to the sale of Customer Premises Equipment in terms of a lease.

	2011 Cost Rm	2011 Accumulated amortisation Rm	2011 Carrying value Rm	2012 Cost Rm	2012 Accumulated amortisation Rm	2012 Carrying value Rm
12. INTANGIBLE ASSETS						
Trademarks, copyrights and FIFA brand	191	(90)	101	**176**	**(93)**	**83**
Software	8,106	(4,979)	3,127	**8,344**	**(5,353)**	**2,991**
Under construction	217	–	217	**207**	**–**	**207**
Connection Incentive Bonus*	–	–	–	**180**	**(43)**	**137**
	8,514	(5,069)	3,445	**8,907**	**(5,489)**	**3,418**

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Impairments and write-offs Rm	Disposals Rm	Amortisation Rm	Carrying value at end of year Rm
2012							
Trademarks and copyrights	**101**	**1**	**–**	**–**	**–**	**(19)**	**83**
Software	**3,127**	**394**	**197**	**(89)**	**–**	**(638)**	**2,991**
Connection Incentive Bonus*	**–**	**180**	**–**	**–**	**–**	**(43)**	**137**
Under construction	**217**	**170**	**(180)**	**–**	**–**	**–**	**207**
	3,445	**745**	**17**	**(89)**	**–**	**(700)**	**3,418**
2011							
Trademarks, copyrights and FIFA brand	163	–	(5)	–	–	(57)	101
Software	3,383	194	175	(6)	–	(619)	3,127
Under construction	172	205	(160)	–	–	–	217
	3,718	399	10	(6)	–	(676)	3,445

* *The Connection Incentive Bonus amortisation is not included in the amortisation category in the statement of comprehensive income but is included under selling, general and administration expenses.*

There are no intangible assets with titles that are restricted, or that have been pledged as security for liabilities at 31 March 2012.

Intangible assets that are material to the Company consist of Software, Copyrights and Trademarks whose average remaining amortisation period is 4.3 years (2011: 4.5 years).

No intangible asset has been assessed as having an indefinite useful life.

Approximately R370 million (2011: R135 million) of additions relate to externally acquired intangible assets. R375 million (2011: R264 million) relates to internal developments.

	2011 Rm	**2012 Rm**
13.1. INVESTMENTS IN SUBSIDIARIES	868	**202**
Trudon (formerly known as TDS Directory Operations) (Proprietary) Limited		
64.90% shareholding at cost	167	**167**
Swiftnet (Proprietary) Limited	25	**25**
100% shareholding at cost	25	**25**
Rossal No 65 (Proprietary) Limited		
100% shareholding at cost (R100)	–	**–**
Acajou Investments (Proprietary) Limited		
100% shareholding at cost (R100)	–	**–**
Intekom (Proprietary) Limited		
100% shareholding at cost	10	**10**
*Q-Trunk (Proprietary) Limited**	–	**–**
100% shareholding at cost	10	**10**
Loan	13	**–**
Impairment	(23)	**(10)**
*iWayAfrica **	308	**–**
100% shareholding at cost	150	**150**
Loan	270	**–**
Impairment of investment	(112)	**(150)**
Telkom International (Proprietary) Limited	358	**–**
100% shareholding at cost (R100)	–	**–**
Loan	2,482	**2,481**
Impairment of loan	(2,124)	**(2,481)**
Available-for-sale		
Unlisted investment		
Rascom		
0.69% interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.	–	**–**
Cost	1	**1**
Impairment	(1)	**(1)**

The aggregate directors' valuation of the above investments is R4 109 million (2011: R4 966 million) based on net asset value.

***Key assumptions**

The key assumptions used for value-in-use calculations are as follows:

	2011	2012
Gross margin %	(8) – 26	**27 – 30**
Growth rate %	7.4	**2.0**
Discount rate %	17.1	**13.87**

	2011 Rm	2012 Rm
13.2. ASSET HELD FOR SALE		
Multi-Links Telecommunications Limited	319	**–**
25% shareholding at cost	1,339	**1,339**
100% 550,000 10% non-cumulative preference shares at par NGN1.00 and a premium of NGN99,999.00	2,674	**2,674**
Equity capital contribution	999	**999**
Multi-Links guarantee	10	**10**
Loan/equity contribution	2,855	**3,135**
Impairment of investment, loan and guarantee	(7,558)	**(8,157)**

Investments and loans key assumptions*

Loans and investments are tested for impairment losses whenever there are impairment indicators by comparing the recoverable amounts of the cash-generating units (CGU) with the carrying amounts of the investments and loans.

For continuing operations the recoverable amount of a CGU is determined based on value-in-use calculations. Value-in-use is based on the discounted cash flow method. For discontinued operations and/or for assets held for sale, the measurement amount is determined based on the lower of carrying value or fair value less costs to sell of the discontinued operation or asset held for sale.

The key assumptions used for value-in-use calculations are as follows:

	2011	2012
Gross margin %	(8) – 26	**27 – 30**
Growth rate %	7.4	**2.0**
Discount rate %	17.1	**13.87**

** The key assumptions in 2011 relate to continuing operations. The CDMA business was discontinued.*

Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

Growth rates

The growth rates are determined based on the forward looking Consumer Price Index, and they reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

Discount rates

The discount rates used are post-tax and reflect specific risks relating to the relevant cash-generating units.

Sensitivity to changes in assumptions

Management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the continuing cash-generating unit to exceed their recoverable amount in the short-term.

Disposal of Multi-Links CDMA business

On 31 March 2011, Telkom and Visafone Communications Limited (Visafone) entered into a legally binding agreement regarding the sale of Multi-Links' CDMA business to Visafone for an enterprise value of USD52 million through a number of transaction steps.

In September 2009, Telkom amended the terms and conditions of the USD loans advanced to Multi-Links, so that a portion of the loan balance becomes interest free with no repayment terms. Multi-Links repaid a portion of the loans outstanding (USD361,793,945). The remaining outstanding amount was then split between debt and equity components – in terms of IAS 39.

Multi-Links issued 550,000 10% non-cumulative preference shares at NGN1.00 each at a premium of NGN99, 999.00. Telkom SA acquired all the shares for NGN55 billion (USD365,448,505).

The 75% shareholding in Multi-Links Telecommunications Limited is an indirect investment through Telkom International (Proprietary) Limited, while 25% is held directly by Telkom.

Telkom had guaranteed Multi-Links' general short-term banking facility with Stanbic IBTC Bank PIC for USD20 million in the prior year.

On 3 October 2011 Multi-Links was sold to Helios Towers Nigeria Limited.

		2011 Rm	2012 Rm
14.	**OTHER INVESTMENTS**	989	**968**
	Special purpose entity – Cell Captive	980	**959**
	Cost	980	**959**
	Investment in Joint Venture	9	**9**
	Investment Number Portability Company*	9	**9**

Investment in Joint Venture

**The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. NPC is jointly owned by Vodacom, MTN, Neotel, Cell C and Telkom in equal proportions. The decrease in the investment is attributable to the transfer of funds from the sinking fund to the annuity policy.This has resulted in the investment being reduced by R21 million.*

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Company's operations. The Company has loans and other receivables, and cash and short-term deposits that derive directly from its operations. The Company also enters into derivative transactions as hedging instruments.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks and is supported by the audit and risk management committee that advises on financial risks and the appropriate financial risk governance framework for the Company. The committee provides assurance that the Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and the Group risk appetite. All derivative activities for risk management purposes are carried in accordance with the Company policy.

Risk management

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

The Company 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 such as trade receivables and payables arise directly from the Company's operations.

The Company finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Company 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, cross currency swaps and forward exchange contracts. The Company does not speculate in derivative instruments.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

The table below sets out the classification of financial assets and liabilities:

Classes of financial instruments per statement of financial position

	Notes	At fair value through profit or loss – Held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Available for sale Rm	Total carrying value Rm	Fair value Rm
2012								
Assets		234	–	1,999	6,088	–	8,321	8,321
Trade and other receivables*	19	–	–	–	4,621	–	4,621	4,621
Finance lease receivable	16	–	–	–	372	–	372	372
Other financial assets		234	–	1,999	–	–	2,233	2,233
Repurchase agreements	20	–	–	1,999	–	–	1,999	1,999
Cross currency swaps	20	41	–	–	–	–	41	41
Forward exchange contracts	20	193	–	–	–	–	193	193
Cash and cash equivalents	21	–	–	–	1,095	–	1,095	1,095
Liabilities		(159)	(12,208)	–	–	–	(12,367)	(13,301)
Interest bearing debt	25	–	(7,178)	–	–	–	(7,178)	(8,112)
Trade and other payables	29	–	(5,005)	–	–	–	(5,005)	(5,005)
Shareholders for dividend	34	–	(23)	–	–	–	(23)	(23)
Credit facilities utilised	21	–	(2)	–	–	–	(2)	(2)
Other financial liabilities		(159)	–	–	–	–	(159)	(159)
Interest rate swaps	20	(54)	–	–	–	–	(54)	(54)
Forward exchange contracts	20	(105)	–	–	–	–	(105)	(105)
		75	(12,208)	1,999	6,088	–	(4,046)	(4,980)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Classes of financial instruments per statement of financial position *(continued)*

	Notes	At fair value through profit or loss – Held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Available for sale Rm	Total carrying value Rm	Fair value Rm
2011								
Assets		194	–	1,662	7,323	–	9,179	9,179
Trade and other receivables*	19	–	–	–	4,628	–	4,628	4,628
Investments**	13	–	–	–	628	–	628	628
Finance lease receivable	16	–	–	–	357	–	357	357
Other financial assets		194	–	1,662	–	–	1,856	1,856
Repurchase agreements	20	–	–	1,662	–	–	1,662	1,662
Forward exchange contracts	20	194	–	–	–	–	194	194
Cash and cash equivalents	21	–	–	–	1,710	–	1,710	1,710
Liabilities		(196)	(13,825)	–	–	–	(14,021)	(14,850)
Interest bearing debt	25	–	(8,344)	–	–	–	(8,344)	(9,173)
Trade and other payables	29	–	(5,449)	–	–	–	(5,449)	(5,449)
Shareholders for dividend	34	–	(21)	–	–	–	(21)	(21)
Credit facilities utilised	21	–	(11)	–	–	–	(11)	(11)
Other financial liabilities		(196)	–	–	–	–	(196)	(196)
Interest rate swaps	20	(29)	–	–	–	–	(29)	(29)
Cross currency swaps	20	(16)	–	–	–	–	(16)	(16)
Forward exchange contracts	20	(151)	–	–	–	–	(151)	(151)
		(2)	(13,825)	1,662	7,323	–	(4,842)	(5,671)

* *Trade and other receivables are disclosed net of pre-payments of R330 million (2011: R175 million).*

** *Investments include amounts relating to loans of RNil million (2011: R628 million). RNil million (2011: R270 million) relates to iWayAfrica and RNil million (2011: R358 million) to Telkom International (Pty) Limited.*

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Long-term receivables and borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 March 2012, the carrying amount of such receivables, net of allowances, is not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date. The changes in counterparty credit risk had no material effect on other financial instruments recognised at fair value.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.1 Fair value of financial instruments

The carrying value of all financial instruments noted in the statement of financial position approximates fair value, except as detailed below.

The estimated net fair values as at 31 March 2012 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 Company could realise in the normal course of business.

Derivatives are recognised at carrying value.

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 reporting date.

The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying value 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. As a result they differ from carrying values.

Fair value hierarchy

The following table presents the Company's assets and liabilities that are measured at fair value at 31 March 2012. The different levels have been defined as follows:

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

31 March 2012	Total	Level 1	Level 2	Level 3
Assets measured at fair value	Rm	Rm	Rm	Rm
Forward exchange contracts	**193**	**–**	**193**	**–**
Cross currency swaps	**41**	**–**	**41**	**–**
Liabilities measured at fair value				
Interest rate swaps	**(54)**	**–**	**(54)**	**–**
Forward exchange contracts	**(105)**	**–**	**(105)**	**–**
31 March 2011				
Assets measured at fair value				
Forward exchange contracts	194	–	194	–
Liabilities measured at fair value				
Interest rate swaps	(29)	–	(29)	–
Cross currency swaps	(15)	–	(15)	–
Forward exchange contracts	(151)	–	(151)	–

15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.2 Credit risk management

Credit risk is the risk due to uncertainty in a counterparty's ability to meet its obligations as they fall due. The Company is exposed to credit risk from its operating activies and from financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Company is not exposed to significant concentrations of credit risk and credit limits are set on an individual basis. The maximum exposure to the Company from counterparties in respect of derivative contracts is R234 million (2011: R192 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 Company limits the exposure to any counterparty and exposures are monitored daily. The Company expects that all counterparties will meet their obligations.

With respect to credit risk arising from other financial assets of the Company, which comprises held-to-maturity investments, financial assets held at fair value through profit or loss, loans and receivables and available-for-sale assets (other than equity investments), the Company's exposure to credit risk arises from a potential default by a counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces 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 widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid customers, on application for new services on an ongoing basis, where appropriate.

The Company 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 (refer to note 19).

Given the deterioration of credit markets, stricter objectives, policies and processes were applied for managing and measuring the risk than in the previous period.

Credit risk from balances with banks and financial institutions is managed by the Company's Treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

	Carrying amount	
	2011	**2012**
	Rm	**Rm**
Trade receivables (refer to note 19)	3,990	**3,966**
Business and residential	1,605	**1,622**
Global, corporate and wholesale	1,930	**2,070**
Government	559	**643**
Other	251	**104**
Impairment of trade receivables (refer to note 19)	(355)	**(473)**
Multi-Links guarantee	340	**–**
Derivatives	194	**234**
Loans receivable	628	**–**
Finance lease receivables	357	**372**
Cash and cash equivalents	1,699	**1,093**
Other receivables *	638	**655**
	7,846	**6,320**

* *Excluding pre-payments.*

	2011	**2012**
The ageing of trade receivables at the reporting date was:		
Not past due/current:	3,259	**3,221**
Ageing of past due but not impaired		
21 to 60 days	322	**548**
61 to 90 days	106	**131**
91 to 120 days	66	**97**
120+ days	592	**442**
	4,345	**4,439**

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.2 Credit risk management *(continued)*

The ageing in the allowance for the impairment of trade receivables at reporting date was:

	2011 Rm	2012 Rm
Ageing of impaired trade receivables:		
Current defaulted	14	**59**
21 to 60 days	18	**55**
61 to 90 days	16	**37**
91 to 120 days	16	**35**
120+ days	291	**287**
	355	**473**

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 19.

Included in the allowance for doubtful debts are individually impaired receivables with a balance of R211 million (2011: R252 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 Company does not hold any collateral over these balances.

15.3 Liquidity risk management

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

Liquidity risk is managed by the Company's Treasury department in accordance with policies and guidelines formulated by Telkom's Executive Committee. In terms of its borrowing requirements the Company ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Company 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 commercial paper bills and/or commited facilities.

There were no material changes in the exposure to liquidity risk and the objectives, policies and processes for managing and measuring the risk during the 2012 financial year.

The table below summarises the maturity profile of the Company's financial liabilities based on undiscounted contractual cash flow at the reporting date:

	Notes	Carrying amount Rm	Contractual cash flows Rm	< 6 months Rm	6 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
2012								
Non-derivative financial liabilities								
Interest bearing debt (excluding finance leases)	25	**6,332**	**7,390**	**1,137**	**71**	**2,141**	**1,463**	**2,578**
Credit facilities utilised	21	**2**	**2**	**2**	**–**	**–**	**–**	**–**
Trade and other payables	29	**5,005**	**5,422**	**3,912**	**1,510**	**–**	**–**	**–**
Finance lease liabilities	35	**845**	**1,337**	**92**	**95**	**155**	**564**	**431**
Shareholders for dividend	34	**23**	**23**	**23**	**–**	**–**	**–**	**–**
Derivative financial liabilities								
Other financial liabilities	20	**159**	**159**	**91**	**42**	**30**	**(4)**	**–**
Interest rate swaps		**54**	**54**	**16**	**17**	**25**	**(4)**	**–**
Forward exchange contracts		**105**	**105**	**75**	**25**	**5**	**–**	**–**
		12,366	**14,333**	**5,257**	**1,718**	**2,326**	**2,023**	**3,009**
2011								
Non-derivative financial liabilities								
Financial guarantee contract	13.2	10	340	340	–	–	–	–
Interest bearing debt (excluding finance leases)	25	7,440	8,577	46	51	1,164	4,733	2,583
Credit facilities utilised	21	11	11	11	–	–	–	–
Trade and other payables	29	5,449	5,465	4,836	629	–	–	–
Finance lease liabilities	35	904	1,512	86	89	188	512	637
Shareholders for dividend	34	21	21	21	–	–	–	–
Derivative financial liabilities								
Other financial liabilities	20	196	196	97	30	55	14	–
Interest rate swaps		29	29	14	12	8	(5)	–
Cross currency swaps		16	16	13	(1)	(5)	9	–
Forward exchange contracts		151	151	70	19	52	10	–
		14,031	16,122	5,437	799	1,407	5,259	3,220

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

Changes in the market prices have an impact on the values of the underlying and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant (refer sections below).

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the Company's forward cover and floating rate debt as well as incremental funding or new borrowings and the refinancing of existing borrowings.

The Company'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 Company makes use of interest rate derivatives as approved in terms of the Company policy limits. Fixed rate debt represents approximately 88.0% (2011: 69.5%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the Company's exposure to interest rate increases given the size of the Company's debt portfolio. There were no changes in the policies and processes for managing and measuring the risk from the previous period.

The table below summarises the interest rate swaps outstanding as at 31 March:

	Maturity range	Notional amount Rm
2012		
Interest rate swaps outstanding		
Pay fixed	**1 – 5 years**	**1,750**
2011		
Interest rate swaps outstanding		
Pay fixed	2 – 3 years	1,250

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.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the Company's risk exposure.

The Company enters into derivative contracts to hedge foreign currency exposure on the Company's operations and liabilities and protect the Company from the risk that the eventual net cash flows will be adversely affected by changes in exchange rates.

There were no changes in the objectives, policies and processes for managing exposure and measuring the risk from the previous period.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4. Market risk *(continued)*

Foreign currency exchange rate risk management *(continued)*

The following table details the foreign forward exchange contracts and cross-currency swaps outstanding at year-end:

To buy	Foreign contract amount Rm	Forward amount Rm	Fair value Rm
2012			
Currency			
USD	**269**	**2,179**	**(65)**
Euro	**40**	**434**	**(21)**
Other	**5**	**57**	**–**
		2,670	
Cross currency swaps			
USD	**67**	**466**	**41**
2011			
Currency			
USD	245	1,893	(143)
Euro	31	306	(7)
Other	4	11	(1)
		2,210	
Cross currency swaps			
USD	67	466	(16)

To sell	Foreign contract amount Rm	Forward amount Rm	Fair value Rm
2012			
Currency			
USD	**161**	**1,441**	**173**
Euro	**3**	**33**	**1**
Other	**1**	**16**	**–**
		1,490	
2011			
Currency			
USD	102	971	193
Euro	5	52	1
		1,023	

The Company has various monetary assets and liabilities in currencies other than the Company's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Company according to the different foreign currencies:

	Euro Rm	United States Dollar Rm	Other Rm
2012			
Net foreign currency monetary assets/(liabilities)			
Functional currency of Company operation			
South African Rand	**294**	**514**	**(1)**
2011			
Net foreign currency monetary assets/(liabilities)			
Functional currency of Company operation			
South African Rand	124	1,055	4

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk *(continued)*

Sensitivity analysis

Interest rate risk

The analysis on interest rate and foreign currency sensitivity is prepared on the basis of prevailing information as at the reporting date and the assumption that all variables remain constant. The analysis is based on the exposure to interest rates and foreign currency for derivatives and other financial liabilities.

A 100 basis point increase or decrease is used when determining interest rate sensitivity and a 10% movement is used when reporting on foreign currency sensitivity. These parameters represent management's assessment of the reasonably possible change in interest and exchange rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 March 2012 would increase/decrease by R42 million (2011: increase/decrease by R42 million).

The following table illustrates the sensitivity to a 100 basis point change in the interest rates before tax, with all other variables held constant:

	+ 1% movement Profit Rm	- 1% movement Profit Rm
2012		
Classes of financial instruments per statement of financial position		
Assets		
Other financial assets	**6**	**(6)**
Cross currency swaps	**2**	**(2)**
Forward exchange contract	**4**	**(4)**
Liabilities		
Other financial liabilities	**36**	**(36)**
Interest rate swaps	**36**	**(36)**
	42	**(42)**
2011		
Assets		
Other financial assets	(12)	12
Forward exchange contract	(12)	12
Liabilities		
Other financial liabilities	54	(54)
Interest rate swaps	28	(28)
Cross currency swaps	13	(13)
Forward exchange contract	13	(13)
	42	(42)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.4 Market risk *(continued)*

Foreign exchange currency risk

If exchange rates had been 10% higher/lower and all other variables were held constant, the Company's profit for the year ended 31 March 2012 would decrease/increase by R106 million (2011: increase/decrease by R113 million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before tax, with all other variables held constant:

	+ 10% movement (Depreciation) Profit Rm	- 10% movement (Appreciation) Profit Rm
2012		
Classes of financial instruments per statement of financial position		
Assets		
Other financial assets	**173**	**(173)**
Forward exchange contract	**125**	**(125)**
Cross currency swaps	**48**	**(48)**
Cash and cash equivalents	**1**	**(1)**
Liabilities		
Interest bearing debt	**(67)**	**67**
	106	**(106)**
Classes of financial instruments per Statement of Financial Position		
2011		
Assets		
Other financial assets	73	(73)
Forward exchange contract	73	(73)
Liabilities		
Interest bearing debt	58	(58)
Other financial liabilities	(244)	244
Cross currency swaps	(48)	48
Forward exchange contract	(196)	196
	(113)	113

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

15.5 Capital management

The Board's policy is to maintain a strong capital base so as to sustain investor, creditor and market confidence and future development of the business. Capital comprises equity attributable to equity holders of the Company which it monitors using, *inter alia*, a net debt to EBITDA ratio. Although the net debt to EBITDA ratio has been positively impacted since the Vodacom transaction, the Company's guidance is to keep the ratio below 1.4 times. Included in net debt are interest bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets.

All of the Company's issued and outstanding ordinary shares rank equal for dividends. The special rights of Class A and Class B ordinary shares expired in terms of the Company's articles of association during March 2011. As a consequence of the expiry, the Class A and Class B shares were automatically converted into ordinary shares.

The Company's current dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The Company may revise its dividend policy from time to time. The determination to pay dividends, and the amount of the dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, the Company's net debt levels, interest coverage, internal cash flows, prospects and available growth opportunities.

There were no changes in the Company's approach to capital management during the year.

The net debt to EBITDA ratio is as follows:

	2011 Rm	2012 Rm
Non-current portion of interest bearing debt	8,189	**5,891**
Current portion of interest bearing debt	155	**1,287**
Other financial liabilities	196	**159**
Less: Cash and cash equivalents	(1,710)	**(1,095)**
Plus: Credit facilities utilised	11	**2**
Less: Other financial assets	(1,856)	**(2,233)**
Net debt	4,985	**4,011**
EBITDA	7,924	**6,435**
Net debt to EBITDA ratio	0.63	**0.62**

16. FINANCE LEASE RECEIVABLES

The Company provides voice and non-voice services through the use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IAS 17.

	Total Rm	< 1 year Rm	1 – 5 years Rm	> 5 years Rm
2012				
Minimum lease payments receivable				
Lease payments receivable	**442**	**163**	**279**	**–**
Unearned finance income	**(70)**	**(35)**	**(35)**	**–**
Present value of minimum lease payments	**372**	**128**	**244**	**–**
Lease receivables	**372**	**128**	**244**	**–**
2011				
Minimum lease payments receivable				
Lease payments receivable	433	153	280	–
Unearned finance income	(76)	(35)	(41)	–
Present value of minimum lease payments	357	118	239	–
Lease receivables	357	118	239	–

	2011 Rm	2012 Rm
17. DEFERRED TAXATION	(873)	**(729)**
Opening balance	(809)	**(873)**
Total movement	(64)	**144**
Profit and loss movements	(109)	**162**
Capital allowances	(83)	**141**
Provisions and other allowances	(6)	**37**
Underprovision prior year	(27)	**(2)**
STC credits raised/(utilised)	7	**(14)**
Other comprehensive income deferred taxation impact (refer note 9)	45	**(18)**
The balance comprises:	(873)	**(729)**
Capital allowances	(3,471)	**(3,330)**
Provisions and other allowances	2,584	**2,601**
STC credits	14	**–**
Deferred tax balance is made up as follows:	(873)	**(729)**
Deferred taxation assets	14	**–**
Deferred taxation liabilities	(887)	**(729)**
Unutilised STC credits	140	**–**

STC was provided for at a rate of 10% on the amount by which dividends declared exceed dividends received in the specified dividend cycle. The deferred taxation asset was raised in 2011 as it was probable that it will be utilised in future. Going forward STC is replaced with a dividend withholding taxation.

The deferred taxation liability decreased mainly due to the shorter taxation write-off periods on property, plant and equipment that was previously utilised.

	2011 Rm	2012 Rm
18. INVENTORIES	1,005	**879**
Gross inventories	1,276	**1,144**
Write-down of inventories to net realisable value	(271)	**(265)**
Inventories consist of the following categories:	1,005	**879**
Installation material, maintenance material and network equipment	823	**713**
Merchandise	182	**166**
Write-down of inventories to net realisable value	271	**265**
Opening balance	290	**271**
Charged to selling, general and administrative expenses	209	**208**
Inventories written-off	(228)	**(214)**

The decrease in gross inventory is mainly due to the reduction in stock holding for Network equipment, Minor material, CPE work in progress, Merchandise and TFMC stock. This is offset by an increase in repair stock holding at third parties and non-warehouse stock provision.

The write-down of inventory is mainly due to the increase in the provision for technology obsolescence and slow-moving stock.

		2011 Rm	2012 Rm
19.	**TRADE AND OTHER RECEIVABLES**	4,803	**4,951**
	Trade receivables	3,990	**3,966**
	Gross trade receivables	4,345	**4,439**
	Impairment of receivables	(355)	**(473)**
	Pre-payments and other receivables	813	**985**
	Impairment of allowance account for receivables	355	**473**
	Opening balance	273	**355**
	Charged to selling, general and administrative expenses (note 5.3)	362	**642**
	Receivables written-off	(280)	**(524)**

The repayment terms of trade receivables vary between 21 days and 30 days from date of invoice. Interest charged varies between prime +1% and 18%, depending on the contract.

Refer to note 15.2 for detailed credit risk analysis.

		2011 Rm	2012 Rm
20.	**OTHER FINANCIAL ASSETS AND LIABILITIES**		
	Other financial assets consist of:	193	**48**
	Total other financial assets	1,856	**2,233**
	– Repurchase agreements	1,662	**1,999**
	– Derivative instrument	194	**234**
	Forward exchange contract	194	**193**
	Cross-currency swaps	–	**41**
	Less: **Current p ortion of other financial assets**	1,663	**2,185**
	– Repurchase agreements	1,662	**1,999**
	– Derivative instrument	1	**186**
	Forward exchange contract	1	**186**

Repurchase agreements

The Company manages a portfolio of repurchase agreements, with a view to generating additional investment income on the favourable interest rates provided by these transactions. Interest received from the borrower is based on the current market-related yield.

Derivative instruments

Derivative assets at fair value consists of forward exchange contracts of R193 million (2011: R194 million) and cross currency swaps of R41 million (2011: RNil million).

	2011 Rm	2012 Rm
20. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*		
Other financial liabilities consist of:		
At fair value through profit or loss	(69)	**(26)**
Total other financial liabilities	(196)	**(159)**
– Derivative instrument	(196)	**(159)**
Forward exchange contract	(151)	**(105)**
Cross currency swaps	(16)	**–**
Interest rate swap	(29)	**(54)**
***Less:* Current portion of other financial liabilities**	(127)	**(133)**
– Derivative instrument	(127)	**(133)**
Forward exchange contract	(89)	**(100)**
Cross currency swaps	(12)	**–**
Interest rate swap	(26)	**(33)**

Derivative liabilities at fair value consists of interest rate swaps of R54 million (2011: R29 million), cross currency swaps of RNil million (2011: R16 million) and forward exchange contracts of R105 million (2011: R151 million).

Hedging activities and derivatives

The Company uses forward exchange contracts, interest rate swaps and cross currency swaps to economically hedge some of its transaction exposures. However hedge accounting is not applied.

21. NET CASH AND CASH EQUIVALENTS

	2011 Rm	2012 Rm
Cash shown as current assets	1,710	**1,095**
Cash and bank balances	710	**666**
Short-term deposits	1,000	**429**
Credit facilities utilised	(11)	**(2)**
Net cash and cash equivalents	1,699	**1,093**
Undrawn borrowing facilities	7,558	**6,500**

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2012, R4,000 million (31 March 2011: R4,820 million) of these undrawn facilities were committed.

Short-term deposits

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

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 loan facilities indicated on note 25.

		2011 Rm	2012 Rm
22.	**SHARE CAPITAL**		
	Authorised and issued share capital and share premium are made up as follows:		
	Authorised	10,000	**10,000**
	1,000,000,000 (2011: 1,000,000,000) ordinary shares of R10 each	10,000	**10,000**
	Issued and fully paid	5,208	**5,208**
	520,783,900 (2011: 520,783,900) ordinary shares of R10 each	5,208	**5,208**
	The following table illustrates the movement within the number of shares issued:		
		Number of shares	**Number of shares**
	Shares in issue at beginning of year	520,783,900	**520,783,900**
	Shares in issue at end of year	520,783,900	**520,783,900**

The unissued shares are under the control of the directors until the next Annual General Meeting. The directors have been given the authority by the shareholders to buy back the Company's own shares up to a limit of 20% of the current issued share capital.

Capital management

Refer to note 15 for a detailed capital management disclosure.

		2011 Rm	2012 Rm
23.	**TREASURY SHARE RESERVE**	(775)	**(775)**

At 31 March 2012, 2,046,528 (2011: 2,002,055) and 8,143,556 (2011: 8,143,556) ordinary shares in Telkom, with a fair value of R49 million (2011: R74 million) and R195 million (2011: R301 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 and Acajou Investments (Proprietary) Limited are reserved for issue in terms of the Telkom Conditional Share Plan.

Although the treasury shares are held by a separate subsidiary, the value is shown as a separate reserve at Company level.

24. SHARE-BASED COMPENSATION RESERVE

This reserve represents the cumulative grant date 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 27). The Telkom Conditional Share Plan came to an end in June 2010.

The following table illustrates the movement within the share-based compensation reserve:

	2011 Rm	2012 Rm
Balance at beginning of year	2,060	**–**
Transfer to retained income*	(1,746)	**–**
Net decrease in equity	(314)	**–**
Employee cost	86	**–**
Vesting and transfer of shares**	(400)	**–**
Balance at end of year	–	**–**

* *Transfer to retained income relates to the closure of the scheme.*

** *Vesting and transfer of shares relates to the shares vested.*

	2011 Rm	2012 Rm
25. INTEREST BEARING DEBT		
Non-current interest bearing debt	8,189	**5,891**
Total interest bearing debt (refer to note 15)	8,344	**7,178**
Gross interest bearing debt	8,577	**7,389**
Discount on debt instruments issued	(1,137)	**(1,057)**
Finance leases	904	**846**
***Less:* Current portion of interest bearing debt**	(155)	**(1,287)**
Local debt	–	**(1,060)**
Call borrowings	–	**(1,060)**
Foreign debt	(97)	**(148)**
Finance leases	(58)	**(79)**
Total interest bearing debt is made up as follows:	8,344	**7,178**
(a) Local debt	6,920	**5,709**
Locally registered Telkom debt instruments	6,920	**5,709**
Name, maturity, rate p.a., nominal value		
TL12, 2012, 12.45%, R1,060 million (2011: R1,060 million)	1,059	**1,060**
TL15, 2015, 11.9%, R1,160 million (2011: R1,160 million)	1,159	**1,159**
TL20, 2020, 6%, R2,500 million (2011: R2,500 million)	1,431	**1,495**
Syndicated loans, 2013, 7.58%, R2,000 million (2011: R3,280 million)	3,271	**1,995**

Total interest bearing debt is made up of R7,178 million debt at amortised cost (2011: R8,344 million debt at amortised cost). Finance costs accrued on local debt are included in trade and other payables (refer to note 29).

Local bonds

The local Telkom bonds are unsecured, but a Side letter to the Subscription Agreement (as amended) of the TL20 bond contains a number of restrictive covenants which, if not met, could result in the early redemption of the loan. The local bonds limit Telkom's ability to create encumbrances on revenue or assets, and secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness. The syndicated loan agreement contains restrictive covenants as well as restrictions on encumbrances, disposals, Telkom SA SOC Limited Group guarantees and loans.

	2011 Rm	2012 Rm
25. INTEREST BEARING DEBT *(continued)*		
(b) Foreign debt	520	**624**
Maturity, rate p.a., nominal value		
Euro: 2011 – 2025, 0.1% – 0.14% (2011: 0.1% -0.14%), €8 million (2011: €9 million)	90	**85**
USD: 2011 – 2016, 2.4% – 2.5% USD 76 million (2011: 2011 – 2016, 2.2% – 2.3% USD 72 million)	430	**539**
The Company entered into a USD 127 million Export Credit Agency (ECA) facility agreement during the previous financial year. This facility is being utilised to finance equipment for the 8•ta network roll out.		
(c) Finance leases	904	**846**
The finance leases are secured by buildings with a carrying value of R104 million (2011: R119 million) and office equipment with a book value of RNil million (2011: R3 million) (refer to note 11). These amounts are repayable within periods ranging from 1 to 7 years. Interest rates are approximately 13.43%.		
Included in non-current and current debt is:		
Debt guaranteed by the South African Government	90	**84**

The Company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act, 85 of 1991. The borrowing powers of the Company are set out as per note 21.

Repayments of current portion of interest bearing debt

The Company partly repaid the syndicated loan by R1,280 million out of available cash during the reporting period.

The repayment of the current portion of interest bearing debt of R1,287 million (nominal) as at 31 March 2012 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

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

		2011 Rm	2012 Rm
26.	**PROVISIONS**		
26.1	**Employee related**	4,690	**4,860**
	Annual leave	479	**512**
	Balance at beginning of year	458	**479**
	Charged to employee expenses	38	**74**
	Leave paid/utilised	(17)	**(41)**
	Post-retirement medical aid (refer to note 27)	4,658	**4,886**
	Balance at beginning of year	4,288	**4,658**
	Interest cost	586	**568**
	Current service cost	114	**106**
	Expected return on plan asset	(237)	**(208)**
	Actuarial loss/(gain)	18	**(88)**
	Curtailment (gain)/loss	(41)	**2**
	Transfer from sinking fund to annuity policy	–	**(47)**
	Termination settlement	(2)	**(2)**
	Contributions paid	(68)	**(103)**
	Telephone rebates (refer to note 27)	551	**516**
	Balance at beginning of year	527	**551**
	Interest cost	50	**47**
	Current service cost	7	**7**
	Past service cost	2	**2**
	Curtailment loss	8	**–**
	Actuarial gain	(19)	**(66)**
	Benefits paid	(24)	**(25)**
	Bonus	913	**577**
	Balance at beginning of year	961	**913**
	Charged to employee expenses	884	**559**
	Payments made	(932)	**(895)**
	***Less:* Current portion of employee related provisions**	(1,911)	**(1,631)**
	Annual leave	(479)	**(511)**
	Post-retirement medical aid	(464)	**(490)**
	Telephone rebates	(55)	**(53)**
	Bonus	(913)	**(577)**
26.2	**Non-employee related**	39	**34**
	Supplier dispute	–	**–**
	Balance at beginning of year	565	**–**
	Charged to expenses	(565)	**–**
	Other	52	**265**
	***Less:* Current portion of other provisions**	(13)	**(231)**
	Other	(13)	**(231)**

26. PROVISIONS *(continued)*

Annual leave

In terms of the Company's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 days (2011: 22 days) which must be taken within a 19-month (2011: 19-month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The bonus scheme consists of performance bonuses which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Company's results have been made public.

Other

Other provisions contain provisions for certain legal matters that have been disclosed in the contingencies note (refer to note 36).

27. EMPLOYEE BENEFITS

The Company provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to 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 31 March 2012, the Company employed 20,939 employees (2011: 22,884).

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 Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991.

The latest actuarial valuation performed at 31 March 2012 indicates that the pension fund is in a surplus position of R59 million. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members.

The funded status of the Telkom Pension Fund is disclosed below:

	2011 Rm	2012 Rm
The Telkom Pension Fund		
The net periodic pension costs includes the following components:		
Interest cost on projected benefit obligations	21	**20**
Service cost on projected benefit obligations	5	**5**
Expected return on plan assets	(35)	**(30)**
Net periodic pension gain recognised in profit and loss	(9)	**(5)**
The net periodic other comprehensive income includes the following components:		
Actuarial loss	22	**6**
Asset Limitation in terms of IAS 19.58(b)	(14)	**1**
Net periodic pension expense recognised in other comprehensive income	8	**7**
Cumulative actuarial loss	(45)	**(51)**
Pension fund contributions	(2)	**(2)**
The status of the pension plan obligation is as follows:		
At beginning of year	219	**224**
Interest cost	21	**20**
Service cost	5	**5**
Employee contributions	2	**2**
Benefits paid	(17)	**(7)**
Curtailment gain	(21)	**–**
Actuarial loss/(gain)	15	**(2)**
Benefit obligation at end of year	224	**242**
Plan assets at fair value:		
At beginning of year	294	**284**
Expected return on plan assets	35	**30**
Benefits paid	(17)	**(7)**
Contributions	2	**2**
Curtailment loss	(23)	**–**
Actuarial loss	(7)	**(8)**
Plan assets at end of year	284	**301**

	2011 Rm	2012 Rm
27. EMPLOYEE BENEFITS *(continued)*		
The Telkom Pension Fund *(continued)*		
Present value of funded obligation	224	**242**
Fair value of plan assets	(284)	**(301)**
Fund surplus	(60)	**(59)**
Asset Limitation in terms of IAS 19.58(b)	10	**12**
Recognised net asset	(50)	**(47)**
Expected return on plan assets	35	**30**
Actuarial loss on plan assets	(7)	**(8)**
Actual return on plan assets	28	**22**
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Yield on government bonds (%)	8.6	**8.9**
Long-term return on equities (%)	11.6	**12.9**
Long-term return on cash (%)	7.6	**8.4**
Expected return on plan assets (%)	10.4	**11.7**
Salary inflation rate (%)	7.1	**7.4**
Pension increase allowance (%)	4.4	**3.8**

The overall long-term expected rate of return on assets is 11.7%. 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 Bonds 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.

	2011	2012
Funding level per statutory actuarial valuation (%)	100	**100**
The number of employees registered under the Telkom Pension Fund	106	**100**
The fund portfolio consists of the following:		
Equities (%)	57	**51**
Bonds (%)	25	**14**
Cash (%)	3	**10**
Foreign investments (%)	15	**25**

The total expected contributions payable to the pension fund for the year ending 31 March 2013 are R1.8 million.

27. EMPLOYEE BENEFITS *(continued)*

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 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 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would have to resign or transfer their share to an approved fund.

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. The Company 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 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 funded status of the Telkom Retirement Fund is disclosed below:

	2011 Rm	**2012 Rm**
Telkom Retirement Fund		
The net periodic retirement costs include the following components:		
Interest cost on projected benefit obligations	649	**717**
Expected return on plan assets	(748)	**(800)**
Net periodic pension expense recognised in profit and loss	(99)	**(83)**
The net periodic other comprehensive income includes the following components:		
Actuarial loss	(722)	**(83)**
Asset Limitation in terms of IAS 19.58(b)	570	**–**
Net periodic pension expense recognised in other comprehensive income	(152)	**(83)**
Cumulative actuarial loss	(1,827)	**(1,910)**
Retirement fund contributions (refer to note 5.1)	566	**558**
Benefit obligation:		
At beginning of year	7,207	**8,654**
Interest cost	649	**717**
Benefits paid	(620)	**(647)**
Liability for new pensioners	175	**26**
Curtailment loss	480	**17**
Actuarial loss	763	**248**
Benefit obligation at end of year	8,654	**9,015**
Plan assets at fair value:		
At beginning of year	7,776	**8,654**
Expected return on plan assets	748	**800**
Benefits paid	(620)	**(647)**
Asset backing new pensioners' liabilities	175	**26**
Curtailment gain	534	**17**
Actuarial gain	41	**165**
Plan assets at end of year	8,654	**9,015**

		2011 Rm	**2012 Rm**
27.	**EMPLOYEE BENEFITS** *(continued)*		
	The Telkom Retirement Fund *(continued)*		
	Present value of funded obligation	8,654	**9,015**
	Fair value of plan assets	(8,654)	**(9,015)**
	Unrecognised net asset	–	**–**
	Expected return on plan assets	748	**800**
	Actuarial gain on plan assets	41	**165**
	Actual gain on plan assets	789	**965**
	Included in the fair value of plan assets are:		
	Office buildings occupied by Telkom	499	**791**
	Telkom shares	44	**34**

The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invest in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund.

	2011	**2012**
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Yield on government bonds (%)	8.6	**8.9**
Long-term return on equities (%)	11.6	**12.9**
Long-term return on cash (%)	7.6	**8.4**
Expected return on plan assets (%)	9.6	**9.9**
Pension increase allowance (%)	4.7	**5.0**

The overall long-term expected rate of return on assets is 9.9%. 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 and South African fixed interest bonds 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.

	2011	**2012**
Funding level per statutory actuarial valuation (%)	100	**100**
The number of pensioners registered under the Telkom Retirement Fund	13,280	**13,379**
The number of in-service employees registered under the Telkom Retirement Fund	22,771	**20,864**

	2011 Rm	2012 Rm
27. EMPLOYEE BENEFITS *(continued)*		
The Telkom Retirement Fund *(continued)*		
The fund portfolio consists of the following:		
Equities (%)	39*	**29**
Bonds (%)	54	**68**
Cash (%)	7	**3**

The expected contributions payable to the Retirement Fund for the year ending 31 March 2013 are R679 million.

** At the retirement fund trustee meeting held on 24 March 2010 the trustees accepted a strategy to immunise the pensioner pool of the Telkom Retirement Fund by having at least 75% of the underlying assets in inflation linked bonds. The other 25% will be in equities.*

Medical benefits

The Company 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 26. The Company has terminated future post-retirement medical benefits in respect of employees joining after 1 July 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 31 March 2012.

Telkom has allocated certain investments to fund this liability as set out in note 14. The annuity policy of the Cell Captive investment is the medical plan asset.

	2011 Rm	2012 Rm
Medical aid		
Benefit obligation:		
At beginning of year	6,350	**6,752**
Interest cost	586	**568**
Current service cost	114	**106**
Actuarial gain	(14)	**(16)**
Curtailment (gain)/loss	(41)	**2**
Termination settlement	(2)	**(2)**
Benefits paid from plan assets	(173)	**(188)**
Contributions paid by Telkom	(68)	**(103)**
Benefit obligation at end of year	6,752	**7,119**
Plan assets at fair value:		
At beginning of year	2,062	**2,094**
Expected return on plan assets	237	**208**
Benefits paid from plan assets	(173)	**(188)**
Transfer from sinking fund to annuity policy	–	**47**
Actuarial (loss)/gain	(32)	**72**
Plan assets at end of year	2,094	**2,233**

		2011 Rm	2012 Rm
27.	**EMPLOYEE BENEFITS** *(continued)*		
	Medical benefits *(continued)*		
	Present value of funded obligation	6,752	**7,119**
	Fair value of plan assets	(2,094)	**(2,233)**
	Liability as disclosed in the statement of financial position (refer to note 26)	4,658	**4,886**
	The net periodic other comprehensive income includes the following components:		
	Actuarial (loss)/gain	(18)	**88**
	Net periodic pension (expense)/income recognised in other comprehensive income	(18)	**88**
	Cumulative actuarial loss	(2,398)	**(2,310)**
	Plan assets at fair value		
	Expected return on plan assets	237	**208**
	Actuarial (loss)/gain on plan assets	(32)	**72**
	Actual return on plan assets	205	**280**
	Principal actuarial assumptions were as follows:		
	Discount rate (%)	8.6	**8.9**
	Expected return on plan assets (%)	10.4	**11.3**
	The expected return on plan assets assumption rate has been derived by considering the actual asset allocation and the expected long-term real return of each asset class using the actuarial asset liability model.		
	Salary inflation rate (%)	7.1	**7.4**
	Medical inflation rate (%)	7.6	**7.9**
	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**
	Average retirement age	60	**60**
	Number of members	12,238	**10,857**
	Number of pensioners	8,113	**8,414**

The valuation results are sensitive to changes in the underlying assumptions. The following table provides an indication of the impact of changing some of the valuation assumptions above:

27. EMPLOYEE BENEFITS *(continued)*

Medical benefits *(continued)*

2012	Current assumption Rm	Decrease Rm	Increase Rm
Medical cost inflation rate	**7.9%**	**-1%**	**+1%**
Benefit obligation	**7,119**	**(982)**	**1,234**
Percentage change		**(13.8%)**	**17.3%**
Service cost and interest cost 2012/2013	**674**	**(111)**	**141**
Percentage change		**(16.5%)**	**20.9%**
Discount rate	**8.9%**	**-1%**	**+1%**
Benefit obligation	**7,119**	**1,251**	**979**
Percentage change		**17.6%**	**13.8%**
Service cost and interest cost 2012/2013	**674**	**60**	**(49)**
Percentage change		**8.9%**	**(7.3%)**
Post-retirement mortality rate	**PA(90) Ultimate-1**	**-10%**	**+10%**
Benefit obligation	**7,119**	**40**	**(39)**
Percentage change		**0.6%**	**(0.5%)**
Service cost and interest cost 2012/2013	**674**	**6**	**(5)**
Percentage change		**0.9%**	**(0.7%)**
2011			
Medical cost inflation rate	7.6%	-1%	+1%
Benefit obligation	6,752	(939)	1,183
Percentage change		(13.9%)	17.5%
Service cost and interest cost 2011/2012	700	(103)	133
Percentage change		(14.7%)	19.0%
Discount rate	8.6%	-1%	+1%
Benefit obligation	6,752	1,200	936
Percentage change		17.8%	13.9%
Service cost and interest cost 2011/2012	700	56	(46)
Percentage change		8.0%	(6.6%)
Post-retirement mortality rate	PA(90) Ultimate-1	-10%	+10%
Benefit obligation	6,752	280	(248)
Percentage change		4.1%	(3.7%)
Service cost and interest cost 2011/2012	700	28	(24)
Percentage change		4.0%	(3.4%)

	2011	2012
27. EMPLOYEE BENEFITS *(continued)*		
Medical benefits (continued)		
The fund portfolio consists of the following:		
Equities (%)	50	**48**
Bonds (%)	15	**17**
Cash and money market investments (%)	15	**12**
Foreign investments (%)	20	**23**

Telephone rebates

The Company provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2012. 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:

	2011 Rm	2012 Rm
Benefit obligation opening balance	538	**558**
Unrecognised past service cost	(11)	**(7)**
Service cost	7	**7**
Interest cost	50	**47**
Actuarial gain	(19)	**(66)**
Past service cost	2	**2**
Curtailment loss	8	**–**
Benefits paid	(24)	**(25)**
Liability as disclosed in the statement of financial position (refer to note 26)	551	**516**
The net periodic other comprehensive income includes the following components:		
Actuarial gain	19	**66**
Net periodic pension income recognised in other comprehensive income	19	**66**
Cumulative actuarial loss	(163)	**(97)**
Principal actuarial assumptions were as follows:		
Discount rate (%)	8.6	**8.9**
Rebate inflation rate (%)	3.9	**3.4**
Contractual retirement age	65	**65**
Average retirement age	60	**60**
The assumed rates of mortality are determined by reference to the standard published mortality table PA(90) ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.		
Number of members	17,301	**15,294**
Number of pensioners	10,308	**10,863**

27. 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 RNil 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 three years thereafter, while the shares allocated in 2006 and 2007 together with management shares vest fully after three years. Although the number of shares awarded to employees, as communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. On appointment, certain directors may be granted awards under the scheme.

The Telkom Board approved a fourth enhanced allocation of shares to employees on 4 September 2007, with a grant date of 27 September 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 also approved an enhanced allocation for the November 2006 grant on 4 September 2007, with a grant date of 27 September 2007. The number of additional shares with respect to the 2006 allocation is 4,996,860 shares.

The scheme was closed in June 2010 after the final vesting.
The 2004 grant has been fully vested.

	2011	**2012**
The following table illustrates the movement of the maximum number of shares that vested to employees for the June 2005 grant:		
Outstanding at beginning of the year	4,052	**–**
Forfeited during the year	(4,007)	**–**
Vested during the year	(45)	**–**
Outstanding at end of the year	–	**–**
The following table illustrates the movement of the maximum number of shares that vested to employees relating to the additional November 2006 grant:		
Outstanding at beginning of the year	68,519	**–**
Vested during the year	(16,936)	**–**
Forfeited during the year	(51,583)	**–**
Outstanding at end of the year	–	**–**
The following table illustrates the movement of the maximum number of shares that vested to employees for the September 2007 grant:		
Outstanding at beginning of the year	5,234,792	**–**
Granted during the year	88	**–**
Vested during the year	(5,124,632)	**–**
Forfeited during the year	(110,248)	**–**
Outstanding at end of the year	–	**–**

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:

	8 August 2004 Grant	23 June 2005 Grant	2 November 2006 Grant	4 September 2007 Grant
Market share price (R)	77.50	111.00	141.25	173.00
Dividend yield (%)	2.60	3.60	3.50	3.50

	2011 Rm	**2012 Rm**
The principal assumptions used in calculating the expected number of shares that will vest are as follows:		
Employee turnover (%)	9	**–**
Meeting specified performance criteria (%)	100	**–**

27. EMPLOYEE BENEFITS (continued)

The amounts for the current and previous four years are as follows:

	Restated* 2008 Rm	Restated* 2009 Rm	2010 Rm	2011 Rm	**2012 Rm**
Telkom Pension Fund					
Defined benefit obligation	(204)	(199)	(219)	(224)	**(242)**
Plan assets	311	247	294	284	**301**
Surplus	107	48	75	60	**59**
Asset limitation	(52)	–	(25)	(10)	**(12)**
Recognised net asset	55	48	50	50	**47**
Experience adjustment on assets	10	(67)	20	(8)	**(8)**
Experience adjustment on liabilities	(6)	1	5	(10)	**9**
Telkom Retirement Fund					
Defined benefit obligation	(7,101)	(6,704)	(7,207)	(8,654)	**(9,015)**
Plan assets	7,991	6,675	7,776	8,654	**9,015**
Unrecognised net asset/(liability)	890	(29)	569	–	**–**
Experience adjustment on assets	118	(1,735)	856	41	**165**
Experience adjustment on liabilities	485	(645)	109	(199)	**(285)**
Medical benefits					
Defined benefit obligation	(4,831)	(5,389)	(6,350)	(6,752)	**(7,119)**
Plan assets	1,929	1,618	2,062	2,094	**2,233**
Liability recognised	(2,902)	(3,771)	(4,288)	(4,658)	**(4,886)**
Experience adjustment on assets	(164)	(393)	298	(32)	**72**
Experience adjustment on liabilities	193	246	266	11	**18**
Telephone rebates					
Defined benefit obligation liability	(428)	(471)	(527)	(551)	**(516)**
Experience adjustment on liabilities	2	2	(15)	(13)	**12**

** Change in accounting policy.*

	2011 Rm	**2012 Rm**
28. DEFERRED REVENUE	2,815	**3,100**
Long-term deferred revenue	1,073	**1,132**
Current portion of deferred revenue	1,742	**1,968**

Included in deferred revenue is profit on the sale and leaseback of certain Telkom buildings of R75 million (2011: R86 million) of which the short-term portion is R11 million (2011: R11 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.

	2011 Rm	**2012 Rm**
29. TRADE AND OTHER PAYABLES	5,449	**5,005**
Trade payables	2,541	**2,747**
Finance cost accrued	145	**140**
Accruals and other payables	2,763	**2,118**

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

The decrease in accruals and other payables can be attributed to the VSP and VERP process undertaken in the prior year.

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the invoice. This averages to 45 days. Telkom does not allow for interest on late payments, and none has been paid in the 2011 and 2012 financial years.

	2011 Rm	2012 Rm
30. RECONCILIATION OF THE PROFIT FOR THE YEAR TO CASH GENERATED FROM OPERATIONS		
Cash generated from operations	8,605	**7,515**
Profit/(loss) for the year	1,565	**(176)**
Finance charges and fair value movements	1,226	**745**
Taxation	793	**766**
Investment income	(470)	**(367)**
Interest received from trade receivables and subsidiaries	(264)	**(220)**
Non-cash items	5,334	**7,455**
Depreciation, amortisation, impairment and write-offs	4,643	**5,264**
Debtors impairment	280	**525**
Cost of equipment disposed when recognising finance leases	39	**40**
Foreign exchange gain	(21)	**(2)**
(Decrease)/increase in provisions	(512)	**102**
Profit on disposal of property, plant and equipment and intangible assets	(165)	**(41)**
Interest received from subsidiaries	14	**7**
Loss on disposal of property, plant and equipment and intangible assets	167	**203**
Impairment of investments and loans	889	**1,357**
Decrease/(increase) in working capital	421	**(688)**
Inventories	28	**127**
Accounts receivable	(465)	**(489)**
Accounts payable	858	**(326)**
31. DIVIDEND RECEIVED	133	**146**
Dividend received from subsidiaries	133	**146**
32. FINANCE CHARGES PAID	(664)	**(674)**
Finance charges and fair value movements per statement of comprehensive income	(1,226)	**(745)**
Non-cash items	562	**71**
Movements in interest accruals	(3)	**(4)**
Net discount amortised	40	**70**
Fair value adjustment	522	**(74)**
Cash effects of foreign exchange rates	6	**7**
Unrealised loss	(3)	**72**
33. TAXATION PAID	(941)	**(753)**
Tax (payable)/receivable at beginning of year	(166)	**91**
Current taxation (excluding deferred taxation)	(548)	**(882)**
Secondary taxation on companies	(136)	**(47)**
Tax (receivable)/payable at end of year	(91)	**85**
34. DIVIDEND PAID	(1,564)	**(754)**
Dividend payable at beginning of year	(23)	**(21)**
Declared during the year – Dividend on ordinary shares:	(1,562)	**(756)**
Final dividend for 2010: 125 cents	(651)	**–**
Special dividend for 2010: 175 cents	(911)	**–**
Final dividend for 2011: 145 cents	–	**(756)**
Dividend payable at end of year	21	**23**

	2011 Rm	2012 Rm
35. COMMITMENTS		
Capital commitments authorised	7,447	**7,400**
Commitments against authorised capital expenditure	1,071	**821**
Authorised capital expenditure not yet contracted	6,376	**6,579**

Capital commitments comprise 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.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2012				
Operating lease commitments and receivables				
Cash flow				
Land and buildings	**504**	**167**	**284**	**53**
Rental receivable on buildings	**(403)**	**(154)**	**(249)**	**–**
Vehicles	**311**	**311**	**–**	**–**
Equipment	**6**	**6**	**–**	**–**
Customer premises equipment receivables	**(42)**	**(30)**	**(12)**	**–**
Total cash flow	**376**	**300**	**23**	**53**
The above figures represent actual cash flows relating to operating leases expected during the periods specified. However, due to the straight-lining effect of operating leases, the amounts that would be recognised in profit or loss in the periods specified, would be as follows:				
Statement of comprehensive income				
Land and buildings	**477**	**167**	**266**	**44**
Rental receivable on buildings	**(365)**	**(148)**	**(217)**	**–**
Vehicles	**311**	**311**	**–**	**–**
Equipment	**6**	**6**	**–**	**–**
Customer premises equipment receivable	**(42)**	**(30)**	**(12)**	**–**
Total to be recognised in the statement of comprehensive income	**387**	**306**	**37**	**44**
Vehicles, equipment and customer premises equipment leases have no fixed annual escalation, therefore the cash flows and profit or loss recognition would be the same.				
2011				
Cash flow				
Land and buildings	537	159	329	49
Rental receivable on buildings	(368)	(126)	(242)	–
Vehicles	670	325	345	–
Equipment	15	10	5	–
Customer premises equipment receivable	(57)	(40)	(17)	–
Total cash flow	797	328	420	49
Statement of comprehensive income				
Land and buildings	512	161	308	43
Rental receivable on buildings	(337)	(124)	(213)	–
Vehicles	670	325	345	–
Equipment	15	10	5	–
Customer premises equipment receivable	(57)	(40)	(17)	–
Total to be recognised in the statement of comprehensive income	803	332	428	43

Vehicles, equipment and customer premises equipment have no fixed annual escalation, therefore the cash flows and statement of comprehensive income recognition would be the same.

35. COMMITMENTS *(continued)*

Operating leases

The Company 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 majority of the leases 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 the 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 the Company has no further use, no possibility of sub-lease and no option to cancel, are provided for in full and included in other provisions (refer to note 26).

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 31 March 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 31 March 2013.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Finance lease commitments				
2012				
Building				
Minimum lease payments	**1,290**	**141**	**718**	**431**
Finance charges	**(489)**	**(106)**	**(331)**	**(52)**
Finance lease obligation	**801**	**35**	**387**	**379**
Equipment				
Minimum lease payments	**–**	**–**	**–**	**–**
Finance charges	**–**	**–**	**–**	**–**
Finance lease obligation	**–**	**–**	**–**	**–**
Vehicles				
Minimum lease payments	**47**	**47**	**–**	**–**
Finance charges	**(3)**	**(3)**	**–**	**–**
Finance lease obligation	**44**	**44**	**–**	**–**
2011				
Building				
Minimum lease payments	1,418	128	653	637
Finance charges	(598)	(109)	(375)	(114)
Finance lease obligation	820	19	278	523
Equipment				
Minimum lease payments	1	1	–	–
Finance charges	–	–	–	–
Finance lease obligation	1	1	–	–
Vehicles				
Minimum lease payments	94	47	47	–
Finance charges	(11)	(8)	(3)	–
Finance lease obligation	83	39	44	–

Finance leases

Finance leases on vehicles relates to the lease of Swap bodies. The lease term for the Swap bodies is April 2008 to April 2013.

A major portion of the finance leases relates to the sale and lease-back of the Company'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.

Telkom has the option to renew the lease and the first option to purchase the buildings. Telkom expects to pay R1.3 billion on these buildings over the remaining seven years.

There are no major restrictions imposed by the lease arrangements.

36. CONTINGENCIES

Competition Commission

Telkom is party to a number of legal proceedings filed by several parties with the South African Competition Commission (CC) alleging certain anti-competitive practices described below. Some of the complaints filed at the CC have been referred by the CC to the Competition Tribunal (CT) for adjudication.

Should the CT find that Telkom committed a prohibited practice as set out in the Competition Act for each of the cases, the CT may impose a maximum administrative penalty of 10% of Telkom's annual turnover in the Republic of South Africa during Telkom's preceding financial year. However, Telkom has been advised by external legal counsel that the CT has to date not imposed the maximum penalty on any offender in respect of the contraventions it is being accused of.

The South African Value Added Network Services (SAVA) and Omnilink

This matter relates to the complaints filed by SAVA in May 2002 and a complaint filed by Omnilink (in August 2002) against Telkom at the Competition Commission (the CC), regarding certain alleged anti-competitive practices by Telkom. These complaints were referred by the CC to the CT on 24 February 2004. The matter was heard by the CT from 17 to 28 October 2011 and from 1 to 9 December 2011.

The presentation of evidence by Telkom and the CC was finalised in December 2011. Arguments by both sides were heard by the CT in February 2012. The CC asked for the maximum penalty of R3.25 billion to be imposed in respect of the "excessive pricing" complaint against Telkom, alternatively R1,168 million in respect of a complaint of alleged refusal by Telkom to provide essential facilities.

In its original heads of argument, Telkom argued that no penalty, or at worst, a nominal penalty, should be awarded in the event that the CT finds that Telkom contravened the Competition Act. However, during the argument on the last day of trial the CT insisted that Telkom make submissions as to an amount of an appropriate penalty. Telkom then submitted that an appropriate penalty (if any penalty is awarded by the CT), would be no more than R20,500,677 in respect of the alleged excessive pricing complaint, or in respect of the refusal to provide essential facilities complaint, a third of the aforementioned R20,500,677, which amounts to R6,833,558. It is important to note that the aforementioned complaints are in the alternative and accordingly, the CT can only impose a penalty in respect of one of the aforementioned two complaints, not both.

Telkom has consistently held that the conduct complained of was fully justified in terms of the regulatory and legislative environment prevailing at the time. The CT will now stand down to consider all the evidence and arguments presented and will then in due course deliver its ruling. It is not clear how long the CT will take to deliver its ruling.

Internet Solutions (IS)

IS filed a complaint at the CC in December 2007 (which was dealt with by the CC as part of the Multiple Complaints Referral referred to below), alleging certain anti-competitive practices by Telkom, such as excessive pricing, margin squeeze, bundling and price discrimination.

Certain parts of this complaint were referred to the CT by the CC and these are dealt with in the Multiple Complaints Referral reported on below. The non-referred parts of the complaint were self-referred by IS. Telkom filed an exception to this self-referral and the CT ruled that IS must amend its papers. However, the papers remained excipiable and Telkom again excepted. IS responded to Telkom's exception application on 10 April 2012, by filing a notice withdrawing its initial referral of the entire complaint. On the same day, IS filed a supplementary affidavit amending and/or withdrawing certain paragraphsof its self-referral as currently constituted. It appears from this supplementary affidavit that IS is referring complaints of exclusionary conduct by Telkom in respect of the retail broadband internet access market, excessive pricing in respect of Telkom's pricing of ADSL lines and leased lines under 2 Mbps, and price discrimination. IS also referred a price discrimination complaint and has requested, in the instance of each of the two complaints, an administrative penalty per complaint.

Telkom filed a notice of an irregular step (namely the supplementary affidavit filed by IS) and a notice of Telkom's intention to proceed to have Telkom's exception application set down for hearing. Various interlocutory applications are underway. Telkom also reserved the right to file an application for consolidation of the IS matter with the Multiple Complaints Referral matter discussed below, should there still be key areas of overlap between the two matters after IS' amendment application and Telkom's exceptions have been disposed of.

Competition Commission Multiple Complaints Referral

The CC served a notice of motion on Telkom in October 2009, in which it referred complaints against Telkom filed by MWEB and IS as well as the Internet Service Providers Association (ISPA), MWEB, IS and Verizon, respectively, to the CT.

36. CONTINGENCIES *(continued)*

Competition Commission *(continued)*

Competition Commission Multiple Complaints Referral (continued)

In the notice of motion the CC requests an order against Telkom in the following terms:

1) Declaring that over the complaint period:
   - The prices charged by Telkom to other first-tier Internet Service Providers (ISPs) for high bandwidth national leased lines (above 2 Mbps) were excessive in contravention of section 8(a) of the Competition Act,(the 'Act');
   - The prices charged by Telkom to other first-tier ISP's for international private lease circuits were excessive; and
   - Telkom contravened section 8 of the Act by setting its prices for Diginet access lines, high bandwidth leased lines and for IP connect as charged to other first-tier ISP's (or, in the case of Diginet access lines, to end-customers using the IP networks of such first-tier ISP's) at levels which, in relation to the prices charged by Telkom for the same services to its own retail and wholesale customers acquiring bundled Diginet or ADSL access and IP network services from Telkom, made it impossible for such other first ISP's to compete cost-effectively with Telkom.

2) Interdicting Telkom from continuing with the conduct referred to in paragraph 1 above.

3) In respect of the contraventions of section 8 of the Act, directing Telkom pay a penalty equal to 10% of its turnover for the financial year ended 31 March 2009.

4) In order to discourage the perpetuation by Telkom of the conduct referred to above, directing Telkom on an annual basis to furnish to the CC such data and information as is necessary to enable the CC to assess whether Telkom is charging prices for the services, which are the subject matter of the order in paragraph 1 above. The data and information shall be provided in the manner and form directed by the CT after hearing further submissions from the CC and Telkom.

Telkom filed its response in January 2012 (after numerous difficulties regarding access to confidential documents had been resolved) and the CC filed its reply in March 2012. Pleadings have now closed and a pre-hearing was held on 17 May 2012. The matter has been set down for hearing at the CT from 18 June 2013 to 5 July 2013.

Phutuma Networks (Pty) Limited (Phutuma)

Phutuma filed a complaint at the CC early in 2010, wherein Phutuma alleged that Telkom has contravened section 8(c) of the Competition Act by abusing its dominant position in engaging in anti-competitive conduct in the telegraphic and telex maritime services market by unilaterally awarding these services to Network Telex. The CC in June 2010 decided not to refer the complaint to the CT.

However, Phutuma self-referred its complaint to the CT on 20 July 2010, alleging that Telkom engaged in an exclusionary act by appointing Network Telex in 2007 without any formal procurement process. Telkom filed its answer in which it raised certain preliminary points, and Phutuma filed its reply. Telkom's preliminary points were upheld by the CT in March 2011. Phutuma's self-referral was dismissed with costs. Phutuma appealed this decision to the Competition Appeal Court (CAC) and filed its notice of appeal on 24 March 2011. The appeal has been set down for hearing on 28 May 2012 and judgement is reserved.

Directory Solutions CC v Trudon and Telkom

Directory Solutions lodged a complaint at the CC in March 2009 as well as an application for interim relief at the CT in November 2009.

In April 2010, the CT made an order in favour of Directory Solutions in respect of the interim relief application. Telkom and Trudon lodged an appeal at the CAC. The CAC ruled in favour of Telkom and Trudon in June 2010, setting aside the order made by the CT. Directory Solutions then brought an application for special leave to appeal to the Supreme Court of Appeal, which was dismissed with costs. This thus disposes of the interim relief application. Directory Solutions' initial complaint at the CC was also non-referred by the CC on 10 February 2012. The time period within which to self-refer has expired and thus the entire complaint is also disposed of.

Independent Cellular Service Providers' Association of South Africa (ICSPA)

In 2002, ICSPA filed a complaint against Telkom at the CC. The CC issued a notice of non-referral. The complainant itself then referred the matter to the CT in September 2003. The complainant had not filed a reply to Telkom's answering affidavit. In light of the fact that almost a decade has lapsed since filing of the last pleading took place it is unlikely that this matter will be revived.

36. CONTINGENCIES *(continued)*

Competition Commission *(continued)*

Orion/Telkom (Standard Bank and Edcon): Competition Tribunal

In April 2003, Orion filed a complaint against Telkom, Standard Bank and Edcon at the CC. Orion also filed an application against Telkom, Standard Bank and Edcon at the CT for an interim order. Telkom did not file its answering affidavit in the application before the CT since it appeared that Orion was not actively pursuing this matter. The facts have also long since overtaken the underlying reasons for the interim application. As regards the complaint, the CC issued a certificate of non-referral in April 2004. However, Orion self-referred the complaint to the CT on 30 April 2004. Telkom has not filed an answer to this referral. Despite this, Orion has not done anything on the self-referral matter either. In light of the aforementioned, it is highly unlikely that this matter will be revived.

Matters before the Independent Communications Authority of South Africa (ICASA)

Phutuma Networks (Pty) Limited (*Phutuma)*

Phutuma filed a complaint against Telkom at the Complaints and Compliance Committee of ICASA (CCC) in February 2010. At a hearing before the CCC on 15 July 2010, the CCC expressed the view that they lacked jurisdiction to rule on certain of the complaints, which relied on legislation over which the CCC does not have jurisdiction. The CCC requested Phutuma to amend its complaint to address this and Phutuma consequently filed an amended formal complaint sheet (replacing the first complaint sheet). However, at a hearing on 28 March 2011 the CCC ruled that the second complaint sheet suffered from the same defects as the original complaint sheet and requested Phutuma to reformulate the complaint again. Phutuma then provided the CCC with a fresh complaint in hand-written format. In terms of the complaint as currently constituted, Phutuma's complaint currently consists of six complaints, as set out below:

First complaint: Phutuma alleges that Telkom breached condition 4 of its Individual Electronic Communication Network Services (IECNS) licence relating to universal service obligations in that the service which Telkom is giving does not conform to the "ITU Standards".

Second complaint: Phutuma alleges that Telkom breached condition 4.2.2 of its IECNS licence and condition 3.2.2 of its Individual Electronic Communication Network (IECN) licence in that there is no stipulation in Telkom's arrangement with Network Telex to ensure that the exercise by Network Telex of Telkom's function under its licence do not contravene any of the conditions of its licence.

Third complaint: Phutuma alleges that Telkom has contravened section 16(6) of the Electronic Communications Act (ECA) in that it has allegedly ceded or transferred part of both its Individual Electronic Communication Services (IECS) and IECNS licence to Network Telex without the prior written approval of ICASA, being the function of telegrams, maritime services (ship to shore), customer premises equipment and Telex machines.

Fourth complaint: Phutuma alleges that Telkom breached section 67(1)(a) – (b) of the ECA read with section 2(g) – (h) thereof in that Telkom substantially lessened or prevented competition by giving undue preference to Network Telex and by causing undue discrimination against the complainant and did not promote open, fair and non-discriminatory access to electronic communications services by simply appointing Network Telex and appointing a non-BEE, being Network Telex.

Fifth complaint: Phutuma alleges that Telkom breached condition 4.4 of its IECS licence and condition 3.4 of its IECNS licence and/or contravened section 15(1) and section 80(1) of the Postal Services Act in that Telkom allegedly entrusted the delivery of telegrams to Network Telex.

Sixth complaint: Phutuma alleges that Telkom breached condition 4.2.3 of its IECS licence and condition 3.2.3 of its IECNS licence in that it failed to act against Network Telex despite the latter's known contravention of the Postal Services Act.

Telkom responded to this amended complaint sheet in December 2011 and Phutuma filed its reply thereto. Telkom has requested ICASA to allocate a date for hearing of the matter before the CCC.

End-User and Service Charter Regulations

Allegations have been made at the CCC regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter Regulations relating to the clearance of reported faults. A hearing has taken place and, should the CCC rule against Telkom, it could impose a penalty of up to R650,000 on Telkom. Telkom, however, has initiated administrative review proceedings seeking to set-aside the applicability of the regulations.

Neotel (Pty) Limited

On 2 December 2011, the CCC notified Telkom of having received ICASA's referral of a notification of dispute. A notification of dispute was lodged by Neotel (Pty) Limited that broadly relates to Telkom's alleged refusal to lease its unbundled local loop constituting a portion of Telkom's electronic communication network.

36. CONTINGENCIES *(continued)*

Matters before the Independent Communications Authority of South Africa (ICASA) *(continued)*

Neotel (Pty) Limited *(continued)*

The CCC heard arguments from both parties in the above matter in May 2012. At the culmination of proceedings, the CCC ruled that Neotel's request to access Telkom's local loop was a valid request and that Telkom's response to the same was inadequate. However, the CCC also ruled that there currently exists no regulatory framework to give practical effect to local loop unbundling (LLU). The effect of this is to render the practical implementation of LLU not possible or legislatively permissible. In the circumstances the CCC has recommended that Telkom and Neotel reconsider the issue and revert to ICASA within three months and that ICASA consider the matter within the context of its December 2011 LLU determinations.

SUPPLIER DISPUTE

Radio Surveillance Security Services (Pty) Limited (RSSS)

During September 2011 RSSS served two summons on Telkom for the sum of R215,661,865.88 (including VAT) and R9 913,782.00 (including VAT), respectively. In the summons for R215,661,865.88 RSSS alleged that Telkom was indebted to it for the rendering and upgrading of 440 alarm systems previously purchased by Telkom, to be M3010 compliant and for which services Telkom was indebted to it.

Telkom neither concluded any written contract with RSSS for the provision of these alleged services nor did Telkom place any orders or accepted any quotations in respect of these services. In the summons for R9,913,782.00 RSSS claimed that Telkom was liable for rentals, monitoring and maintenance of alarm systems, which were rented and/or purchased from RSSS. Both actions are defended. During November 2011 RSSS withdrew both actions against Telkom in terms of a settlement agreement. Telkom was of the view that the dispute was settled on the basis that RSSS withdraw its summons and each party pays its own legal costs. RSSS differed from Telkom's view and in December 2011 RSSS reissued summons for the same amounts. Telkom is defending both claims and filed a counterclaim for R28,000,000.00 on the first claim. With regard to the second claim, Telkom has served a notice of exception on RSSS.

HIGH COURT

Phutuma Networks (Pty) Limited (Phutuma)

On 20 August 2009 Phutuma served a summons on Telkom for damages arising from a tender published on 30 November 2007 for outsourcing of the Telex and Gentex services and for the provision of a solution to support the maritime industry requirements. The tender was cancelled on 10 June 2009, without any award being made, due to the expiration of the validity period. Phutuma has alleged that Telkom had awarded the tender to a third party outside a fair, transparent, competitive and cost effective procurement process. It has claimed damages of R3,730,433,545.00, alternately R5,513,876,290.00, and further alternatively R1,771,683,580.00 plus interest. The matter was set down for hearing from 24 October 2011 to 18 November 2011 in the High Court. On 24 October 2011, Phutuma brought an application to compell Telkom to make better discovery of documents for trial purposes. The court dismissed Phutuma's application with costs. Phutuma applied for an adjournment of the trial which application was granted subject to Phutuma paying Telkom's wasted legal costs. The matter was set down for hearing on 20 May 2013.

Phutuma also lodged a complaint with the Public Protector during November 2011. Telkom responded to the complaint in December 2011.

South African National Road Agency (SANRAL)

During October 2009, SANRAL served an application against Telkom issued out of the KwaZulu-Natal High Court in terms of which it sought a declaratory order and interdict. The application arose due to Telkom proceeding to install facilities along the N2 national road reserve within the proximity of Pongola. On 25 October 2010, the court granted a declaratory order, which prohibited Telkom from entering upon any SANRAL land without obtaining SANRAL's prior permission. Telkom appealed against the court order. In March 2012, the full bench of the KwaZulu-Natal High Court dismissed the appeal.

Bihati Solutions (Pty) Limited (Bihati) and Merid Trading (Pty) Limited (Merid)

This matter arose from the award of a tender by Telkom in November 2008 for the construction of network services, after the validity period had expired. In November 2009 the Telkom Board resolved to apply to the High Court to review and set aside the award since the award was made outside of the validity period. Simultaneously with the Telkom application, Bihati applied to the High Court for the Telkom Board decision to be reviewed and set aside and for an order compelling Telkom to commence with the negotiations in respect of the award. Merid and Bihati opposed Telkom's application. The court granted Telkom's application and dismissed Bihati's application with costs. Bihati and Merid are appealing the judgement granted in favour of Telkom in the Supreme Court of Appeals, which is opposed by Telkom. The appeal is set down for hearing on 16 August 2012. Telkom has, in the interim, received a letter of demand from Bihati in which it claims damages. The contents of the letter of demand is under discussion.

36. CONTINGENCIES *(continued)*

High Court *(continued)*

ZTE Mzanzi South Africa (Pty) Limited (ZTE)

During 2011, Telkom awarded the MSAN tender to Huawei Technologies Africa and Alcatel-Lucent. In January 2012, an unsuccessful bidder, ZTE, served an interdict application on Telkom, in which it sought an order for an interim interdict, to restrain and interdict Telkom from implementing the tender and concluding any service level agreements with the successful bidders, pending the finalisation of the dispute resolution process between Telkom and ZTE. In March 2012 the High Court granted the interim interdict in favour of ZTE. Telkom has filed an application for leave to appeal to the Supreme Court of Appeal, which was granted on 23 May 2012.

African Prepaid Services Nigeria (APSN) Vs. Multi-Links: Arbitration matter

Multi-Links, a previously wholly-owned subsidiary of Telkom in Nigeria, concluded a Super Dealer agreement with African Prepaid Services (APS), in December 2008 in terms of which APS was appointed for an initial period of 10 years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (“the agreement”). On 29 May 2009, APS ceded and assigned all of its rights and obligations in terms of the agreement to APSN. On 26 November 2010 APSN cancelled the agreement on the basis of an alleged repudiation by Multi-Links of the agreement. On 13 June 2011 APSN launched arbitrational proceedings in South Africa (as per contract) against Multi-Links claiming damages (nine claims) in the total sum of USD481,199,101.00. Multi-Links is defending the matter and has filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in Multi-Links to HIP Oils Topco Limited during September 2011. In addition, in terms of an indemnity contained in the sale and purchase agreement between Telkom and HIP Oils Topco Limited concluded in August 2011, Telkom is liable for all amounts in excess of USD10 million in respect of the claim between APSN and Multi-Links.

The arbitration will be heard from 4 November to 15 December 2012.

OTHER

HIP Oils Topco Limited (HIP Oils)

With the sale of Telkom’s shares in Multi-Links to Hip Oils, Telkom provided a taxation indemnity and a “creditors” indemnity to Hip Oils and Multi-Links where such liability or obligation was incurred prior to 3 October 2011 and to the extent that such liability exceeded the amounts set out in schedule 4 (creditors list) to the sale and purchase agreement.

Telkom has undertaken to indemnify any actual or contingent liabilities, obligations or other indebtedness of any nature owed or owing to trade, financial and other creditors of Multi-Links where such liability, obligation or other indebtedness was incurred and not disclosed to Hip Oils prior to the completion date.

Consumer Protection Act (CPA)/National Consumer Commission (NCC)

On 25 August 2011 the NCC served compliance notices on Telkom for both fixed-line and mobile services to be brought in line with CPA. The NCC alleges that Telkom’s terms and conditions for fixed-line and mobile services (8•ta) were not compliant with the CPA, at that stage. Telkom has filed an objection to these compliance notices in terms of Section 101 of the CPA.

On 28 September 2011, Telkom submitted its revised terms and conditions to the NCC. Telkom is of the view that the revised terms and conditions are in compliance with the provisions of the CPA. The NCC is not in agreement with Telkom’s interpretation of the CPA in respect of certain clauses of our standard terms and conditions. Telkom has further amended those clauses to give the NCC more comfort and has implemented its revised/compliant terms and conditions. Telkom has met with the NCC to ascertain how the matter can be settled.

Telkom’s objection was set down for hearing on 11 May 2012, but was postponed at the request of the NCC.

TAX MATTERS

The Group is regularly subject to an evaluation, by tax authorities, of its direct and indirect tax filings. The consequence of such reviews is that disputes can arise with tax authorities over the interpretation or application of certain tax rules applicable to the Group’s business. These disputes may not necessarily be resolved in a manner that is favourable to the Group. Additionally, the resolution of the disputes could result in an obligation to the Group.

37. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS

PL Zim, N Kapila, J Molobela, JN Hope and RJ Huntley, five of Telkom's Board members, are the South African Government representatives on Telkom's Board of Directors. At 31 March 2012, the Government of South Africa held 39.76% (2011: 39.76%) of Telkom's shares.

	Beneficial		Non-beneficial	
Number of shares	**Direct**	**Indirect**	**Direct**	**Indirect**
Directors' shareholding				
2012				
Executive				
NT Moholi	**37,004**	**–**	**–**	**–**
	37,004	**–**	**–**	**–**
Non-executive				
J Molobela	**267**	**–**	**–**	**–**
NP Mnxasana	**160**		**–**	**–**
	427	**–**	**–**	**–**
2011				
Executive				
RJ September[1]	–	–	–	–
PG Nelson[2]	–	–	–	–
	–	–	–	–
Non-executive				
J Molobela	267	–	–	–
NP Mnxasana	160			
	427	–	–	–

(1) *Resigned as Telkom Group Chief Executive Officer on 7 July 2010.*

(2) *Resigned as Group Chief Financial Officer on 25 August 2010.*

37. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

	2011 Rm	2012 Rm
Directors' emoluments	19	**28**
Executive		
For services as directors	12	**20**
Non-executive		
For other services	7	**8**

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2012					
Emoluments per director:					
Non-executive	**8,181,181**	**–**	**–**	**–**	**8,181,181**
NP Dongwana	**62,401**	**–**	**–**	**–**	**62,401**
B du Plessis	**820,000**	**–**	**–**	**–**	**820,000**
JN Hope	**760,000**	**–**	**–**	**–**	**760,000**
RJ Huntley	**970,000**	**–**	**–**	**–**	**970,000**
PG Joubert	**325,417**	**–**	**–**	**–**	**325,417**
N Kapila	**704,811**	**–**	**–**	**–**	**704,811**
PSC Luthuli	**955,000**	**–**	**–**	**–**	**955,000**
I Kgaboesele**	**428,750**	**–**	**–**	**–**	**428,750**
NP Mnxasana	**47,401**	**–**	**–**	**–**	**47,401**
J Molobela	**775,000**	**–**	**–**	**–**	**775,000**
SP Sibisi	**52,401**	**–**	**–**	**–**	**52,401**
Y Waja	**760,000**	**–**	**–**	**–**	**760,000**
PL Zim	**1,520,000**	**–**	**–**	**–**	**1,520,000**
Executive	**–**	**7,461,720**	**3,129,613**	**9,860,446**	**20,451,779**
NT Moholi	**–**	**5,121,720**	**2,253,013**	**4,692,588**	**12,067,321**
JH Schindehütte	**–**	**2,340,000**	**876,600**	**5,167,858**	**8,384,458**
Total emoluments – paid by Telkom	**8,181,181**	**7,461,720**	**3,129,613**	**9,860,446**	**28,632,960**

** Included in fringe and other benefits is a pension contribution for NT Moholi of R665,824 and restraint payment of R3,404,300 and for JH Schindehütte, a pension contribution of R304,200 and sign-on bonus of R4,500,000.*

***Paid to Sphere Holdings (Pty) Limited.*

37. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits* R	Total R
2011					
Emoluments per director:					
Non-executive	7,236,128	–	–	–	7,236,128
D Barber	23,855	–	–	–	23,855
B du Plessis	925,000	–	–	–	925,000
JN Hope	815,000	–	–	–	815,000
RJ Huntley	1,031,000	–	–	–	1,031,000
PG Joubert	715,000	–	–	–	715,000
N Kapila	88,549	–	–	–	88,549
Dr VB Lawrence**	467,378	–	–	–	467,378
PSC Luthuli	900,000	–	–	–	900,000
B Molefe ***	17,255	–	–	–	17,255
J Molobela	1,387,500	–	–	–	1,387,500
Dr E Spio-Garbrah**	37,484	–	–	–	37,484
Y Waja	617,316	–	–	–	617,316
PL Zim	210,791	–	–	–	210,791
Executive	–	3,900,282	–	7,535,852	11,436,134
RJ September	–	2,583,881	–	4,008,228	6,592,109
PG Nelson	–	1,316,401	–	3,527,624	4,844,025
Total emoluments – paid by Telkom	7,236,128	3,900,282	–	7,535,852	18,672,262

* *Included in fringe and other benefits is a pension contribution for RJ September of RNil (2011: R335,905) and PG Nelson of RNil (2011: R171,132).*

	Name	Nationality
** *Foreign directors*	*E Spio-Garbrah*	*Ghanaian*
	Dr. VB Lawrence	*American*
	N Kapila	*Indian*

*** *Paid to the Public Investment Corporation.*

37. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

Emoluments per prescribed officer (Executive committee excluding executive directors):

	Notes	Remune-ration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF 13%*** R
2012						
Emoluments per prescribed officer:						
BC Armstrong	1	**2,781,000**	**1,017,179**	**6,674,400**	**10,472,579**	**253,070**
DJ Fredericks	2	**2,825,421**	**627,525**	**4,433,344**	**7,886,290**	**293,844**
JM Mavuso	1	**2,261,957**	**580,458**	**5,438,520**	**8,280,935**	**176,432**
TE Msubo		**2,853,935**	**693,232**	**1,011,787**	**4,558,954**	**222,607**
MB Sallie	1	**2,622,812**	**892,759**	**6,304,572**	**9,820,143**	**221,627**
GJ Rasethaba		**2,436,780**	**551,833**	**2,436,780**	**5,425,393**	**183,733**
MJ Nzeku		**3,848,278**	**–**	**–**	**3,848,278**	**335,185**
P Marais	3	**1,638,884**	**–**	**4,411,276**	**6,050,160**	**170,444**
Total emoluments – paid by Telkom		**21,269,067**	**4,362,986**	**30,710,679**	**56,342,732**	**1,856,942**

	Notes	Remune-ration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF 13%*** R
2011						
Emoluments per prescribed officer:						
NT Moholi		4,935,000	2,206,142	1,616,959	8,758,101	513,240
DJ Fredericks	2	2,209,964	654,901	1,643,240	4,508,105	229,836
TE Msubo	4	599,225	267,878	1,352,862	2,219,965	46,740
GJ Rasethaba		2,365,805	962,977	774,270	4,103,052	178,382
P Marais		2,121,532	647,598	1,737,335	4,505,465	220,639
IM Fourie	5	523,386	–	7,529,246	8,052,632	39,463
MJ Nzeku		311,349	1 670,227	12,079,263	14,060,839	81,356
JA Hedberg	6	6,062,642	4,158,258	–	10,220,900	–
TG Msimango	5	729,167	–	8,382,355	9,111,522	66,354
JC Smit	7	1,203,110	383,792	740,976	2,327,878	109,483
Total emoluments – paid by Telkom		21,061,180	10,951,773	35,856,506	67,869,459	1,485,493

The Company has identified Exco members as prescribed officers because they exercise general executive control over the business.

* *Remuneration has been apportioned based on the period served as prescribed officers.*

** *Fringe and other benefits includes motor car insurance, retention agreements, sign on bonuses, flexible allowance, acting allowances, leave gratuity and VSP/VERP benefits.*

*** *The pension contribution is a Company contribution.*

1. Appointed to Exco 1 June 2011.
2. DJ Fredericks was appointed as acting Chief Financial Officer from August 2010 to July 2011. Thereafter he was appointed as Deputy Chief Financial Officer.
3. Retired 31 December 2011.
4. Appointed to Exco 1 January 2011.
5. Resigned 31 May 2010.
6. Resigned 31 March 2011.
7. Acting Chief of Human Resources until 31 December 2010.

37. DIRECTORS' INTERESTS AND PRESCRIBED OFFICERS *(continued)*

Executive Directors' Conditional Share Plan Allocation

2012

There was no share scheme in the 2012 financial year (refer note 24).

2011		Share options granted		
Name	Date of grant	Vesting date	Number of shares	Grant date fair value
Reuben September [1]	8 June 2007	30 June 2010	26,457	4,659,607
Peter Nelson [2]	8 December 2008	30 June 2010	20,031	2,013,116

(1) Resigned as Telkom Group Chief Executive Officer on 7 July 2010.

(2) Resigned as Telkom Group Chief Financial Officer on 25 August 2010.

Company executive directors' share incentive scheme movements during 2011

Name	Opening balance	Vested	Forfeited	Closing balance
Reuben September	78,496*	(70,559)	(7,937)	–
Peter Nelson	59,430**	(53,421)	(6,009)	–
	137,926	(123,980)	(13,946)	–

** Included in this amount is a relinquishment of 55,703 Vodacom shares for 52,039 Telkom shares that vested in June 2010.*

***Included in this amount is a relinquishment of 42,212 Vodacom shares for 39,399 Telkom shares that vested in June 2010.*

	2011 Rm	2012 Rm
38. RELATED PARTIES		
Details of material transactions and balances with related parties not disclosed separately in the annual financial statements were as follows:		
Government		
The South African Government has a 39.76% direct shareholding in Telkom SA SOC Limited and has the ability to exercise significant influence.		
Government of South Africa		
Related party balance		
Trade receivables	355	**371**
Trade payables		
Department of Communications	(371)	**(71)**
Related party transactions		
Revenue	(2,904)	**(3,063)**
Individually significant revenue *	1,151	**1,105**
City of Cape Town	95	**84**
Department of Correctional Services	66	**73**
Department of Health: Gauteng	65	**63**
Department of Justice	97	**104**
South African National Defence Force: (CSF)	68	**59**
South African Police Services	557	**522**
South African Revenue Services	49	**41**
S.I.T.A. (Pty) Limited	154	**159**
Collectively significant revenue*	1,753	**1,958**

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

The terms and conditions of trade receivables and payables are disclosed in the respective notes.

	2011 Rm	2012 Rm
With subsidiaries:		
Trudon (Proprietary) Limited		
Related party balances		
Trade receivables	5	**5**
Trade payables	(465)	**(468)**
Related party transactions		
Revenue	(71)	**(74)**
Expenses	16	**14**
Dividend received	(133)	**(146)**

	2011 Rm	2012 Rm
38. RELATED PARTIES *(continued)*		
With subsidiaries: *(continued)*		
Swiftnet (Proprietary) Limited		
Related party balances		
Trade receivables	2	**1**
Trade payables	(26)	**(6)**
Surplus fund	(10)	**–**
Related party transactions		
Revenue	(19)	**(15)**
Expenses	16	**24**
Interest paid	–	**1**
Rossal No 65 (Proprietary) Limited		
Related party balances		
Accruals and other payables	(289)	**(285)**
Related party transactions		
Dividend paid	22	**3**
Dividend received	(40)	**(7)**
Acajou Investments (Proprietary) Limited		
Related party balances		
Accruals and other payables	(164)	**(164)**
Related party transactions		
Dividend paid	24	**17**
Dividend received	(100)	**(17)**
Intekom (Proprietary) Limited		
Related party balances		
Accruals and other payables	(48)	**(58)**
Related party transactions		
Expenses	13	**14**
Q-Trunk (Proprietary) Limited		
Related party balances		
Loan to subsidiary	13	**9**
Impairment of loan	(14)	**(9)**
The loan is unsecured, interest free and has no fixed repayment terms. The loan has been subordinated in favour of other creditors.		
Related party transactions		
Expenses	6	**5**
Special purpose entity – Cell Captive		
Related party balances		
Investment – sinking fund (refer to note 14)	980	**959**
Africa Online Limited ('Africa Online')		
Related party balances		
Loan to subsidiary	190	**264**
Trade receivables	19	**26**
Related party transactions		
Revenue	(1)	**(3)**
Expenses	4	**4**
Investment income	(9)	**(5)**
The loan is unsecured, interest free and has no fixed repayment terms.		

		2011 Rm	**2012 Rm**
38.	**RELATED PARTIES** *(continued)*		
	With subsidiaries: *(continued)*		
	Multi-Links Telecommunications Limited (Multi-Links)		
	Related party balances		
	Loan to subsidiary	2,855	**–**
	Multi-Links guarantee	10	**–**
	Trade receivables	15	**–**
	Impairment of loan, guarantee, trade receivables and trade payables	(7,558)	**(319)**
	Trade payables	(1)	**–**
	Related party transactions		
	Revenue	(5)	**–**
	The loan was unsecured, interest free and no repayment terms had been negotiated.		
	Telkom International (Proprietary) Limited		
	Related party transactions		
	Loan to subsidiary	2,482	**2,481**
	Impairment of loan	(2,209)	**(2,481)**
	The loan has been used to purchase a 75% shareholding in Multi-Links. The loan is unsecured and has no fixed repayment term.		
	iWayAfrica (Proprietary) Limited (formerly MWEB Africa (Proprietary) Limited)		
	Related party balances		
	Other receivables	29	**39**
	Loan to subsidiary	80	**98**
	Impairment of trade and other receivables	–	**(27)**
	The loan is unsecured, interest free and has no fixed repayment terms.		
	Related party transactions		
	Revenue	(10)	**(7)**
	Investments income	(4)	**(2)**
	Telkom Foundation		
	Related party balances		
	Sundry provision	–	**(10)**
	Related party transactions		
	Expenses	44	**36**
	Telkom Management Services (Proprietary) Limited		
	Related party balances		
	Loan to subsidiary	44	**45**
	Impairment of loan	(44)	**(45)**
	The loan bears no interest and has no terms of repayment.		
	With entities under common control:		
	Major public entities		
	Related party balances		
	Trade receivables	23	**11**
	Trade payables	(1)	**(1)**
	The outstanding balances are unsecured and will be settled in cash in the ordinary course of business.		

	2011 Rm	**2012 Rm**
38. RELATED PARTIES *(continued)*		
With major public entities *(continued):*		
Related party transactions		
Revenue	(330)	**(381)**
Expenses	216	**212**
Individually significant expenses:	203	**207**
*South Africa Post Office**	107	**95**
Eskom	84	**107**
South African Broadcast Services	12	**5**
Collectively significant expenses	13	**5**
** Restated.*		
Rent received	(28)	**(26)**
Individually significant rent received: *South Africa Post Office*	(24)	**(22)**
Collectively significant rent received	(4)	**(4)**
Rent paid	24	**21**
Individually significant rent paid: *South Africa Post Office*	14	**13**
Collectively significant rent paid	10	**8**
Key management personnel compensation:		
(Including directors' emoluments)		
Related party transactions		
Short-term employee benefits	119	**148**
Post-employment benefits	7	**8**
Equity compensation benefits	9	**–**
The fair value of the shares that vested in the current year is RNil million (2011: R8.9 million).		

39. SIGNIFICANT EVENTS

Appointment of Group Chief Executive Officer and director

On 17 March 2011, the Telkom Board announced the appointment of Nombulelo Moholi as Group Chief Executive Officer (GCEO) with effect from 1 April 2011.

The Telkom Board believes that this appointment provides leadership, continuity and stability at an important time, given the number of key strategic and operational deliverables.

Appointment of Chief Financial Officer and director

On 29 June 2011 the Telkom Board announced the appointment of Mr Jacques Schindehütte as Chief Financial Officer of Telkom with effect from 1 August 2011.

Re-appointment of Chairman

Mr Polelo Lazarus Zim was appointed as Chairman for a three-year period. His term of office will end the earlier of 31 August 2013 or at the Company's Annual General Meeting of 2013.

Appointment and resignation of independent non-executive directors

On 4 July 2011 the Telkom Board announced the appointment of Mr Itumeleng Kgaboesele as an independent non-executive director of Telkom with effect from 1 July 2011.

Dr Sibusiso Sibisi was appointed as a non-executive director on the Board of Telkom with effect from 20 February 2012.

Ms Nomavuso Mnxasana was appointed as a non-executive director on the Board of Telkom with effect from 20 February 2012.

Ms Neo Dongwana was appointed as a non-executive director on the Board of Telkom with effect from 20 February 2012.

Mr PG Joubert resigned as a non-executive director with effect from 30 August 2011.

Multi-Links Telecommunications Limited

On 26 June 2011 the Telkom Board made a decision to sell the entire issued share capital of Multi-Links to Helios Towers Nigeria Limited. The sale was conditional on, *inter alia*, regulatory approvals. The completion date for the transaction was 3 October 2011.

40. SUBSEQUENT EVENTS

Dividends

The Telkom Board declared an ordinary dividend of Nil cents (2011: 145 cents) per share.

Repayment of TL12 bond

The TL12 bond of R1,060 million was repaid on maturity at the end of April 2012.

Telkom and KT Corporation

During the 2012 financial year, Telkom and KT Corporation announced they had reached, in principle, an agreement on the terms of the potential strategic venture. Should the agreement be implemented it would have resulted in KT Corporation acquiring a strategic equity shareholding of 20% in the post-issue ordinary share capital of Telkom and the companies entering into a five year co-source management service agreement to formalise the relationship and identified areas of mutual strategic and business co-operation.

On 1 June 2012 Telkom announced that it has been informed by the Honourable Minister of Communications that the proposed transaction between the Companies had been presented to cabinet on 30 May 2012 and that cabinet had taken the decision not to support the transaction as proposed. Telkom also advised shareholders that the Company will be engaging with the Honourable Minister of Communications to discuss cabinet's decision and the implications thereof. The engagement will seek to obtain clarity on the context of the decision, given that Korea Telecom, and the transaction, were introduced to Telkom by Government.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2012 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Shareholder analysis

for the year ended 31 March 2012

	Number of shareholders	%	Holdings	%
Range of shareholders				
1 – 100 shares	56,285	69.21	1,946,358	0.37
101 – 1 000 shares	22,880	28.13	6,043,758	1.16
1 001 – 10 000 shares	1,559	1.92	3,773,050	0.72
10 001 – 50 000 shares	202	0.25	5,368,932	1.03
50 001 – 100 000 shares	112	0.14	8,040,342	1.54
100 001 – 1 000 000 shares	240	0.30	75,535,998	14.50
1 000 001 and more shares	52	0.06	420,075,460	80.68
	81,330	100.00	520,783,898	100.00
Type of shareholder				
Banks	148	0.18	87,760,088	16.85
Close corporations	32	0.04	43,167	0.01
Endowment funds	150	0.18	710,937	0.14
Individuals	78,918	97.03	11,573,158	2.22
Insurance companies	33	0.04	12,595,607	2.42
Investment companies	24	0.03	14,114,689	2.71
Medical aid schemes	12	0.01	840,958	0.16
Mutual funds	167	0.21	78,003,460	14.98
Nominees and trusts	1,486	1.83	1,338,173	0.26
Other corporations (including the Government of the Republic of South Africa)	57	0.07	207,092,283	39.77
Own holdings	2	0.00	10,190,084	1.96
Retirement funds	239	0.29	95,794,232	18.39
Private companies	54	0.07	404,682	0.08
Public companies	8	0.02	322,380	0.06
	81,330	100.00	520,783,898	100.00
Geographical holdings by owner				
South Africa	81,081	99.69	413,532,109	79.41
United States	82	0.10	79,537,439	15.27
United Kingdom	50	0.06	17,925,856	3.44
Europe	46	0.06	5,692,275	1.09
Other	71	0.09	4,096,219	0.79
	81,330	100.00	520,783,898	100.00
Beneficial shareholders of more than 2%				
The Government of the Republic of South Africa			207,038,058	39.76
Government Employees Pension Fund			54,879,541	10.54
Allan Gray			28,175,164	5.41
Investment Solutions			10,796,960	2.07
			300,889,723	57.78

Shareholder analysis *(continued)*

for the year ended 31 March 2012

	Holdings	%
Non-public and public shareholders		
Non-public shareholders	217,309,382	41.73
The Government of the Republic of South Africa	207,038,058	39.76
Government buffer account	9,461	0.00
Telkom Treasury Stock	10,190,084	1.96
Executive and non-executive directors*	46,167	0.01
Subsidiaries directors*	25,612	0.00
Public shareholders		
Institutional and retail investors	303,474,516	58.27
	520,783,898	100.00

** Director holdings consists of direct and indirect holdings.*

The information above is based on registered shareholders, except where only beneficial shareholders' information was available.

Definitions

3G
The generic term, 3G, is used to denote the next generation of mobile systems designed to support high-speed data transmission (144 Kbps and higher) and Internet Protocol (IP)-based services in fixed, portable and mobile environments. As envisaged by the ITU, the 3G system will integrate different service coverage zones and be a global platform and the necessary infrastructure for the distribution of converged service, whether mobile or fixed, voice or data, telecommunications, content or computing.

ACCESS NETWORK
The Access Network is the portion of the communications network that connects the subscriber (consumer/business) to the service provider's local exchange, commonly termed the local loop, last mile or first mile.

ADSL (ASYMMETRICAL DIGITAL SUBSCRIBER LINE)
ADSL is a broadband access standard which uses existing copper lines to offer high-speed digital connections over the local loop. ADSL transmits data asymmetrically, meaning that the bandwidth usage is much higher in one direction than the other. ADSL provides greater bandwidth from the exchange to the customer (ie. downloading) than from the customer to the exchange (ie. sending).

ADSL2+
Adsl2+ double the bandwidth used for downstream data transmission, effectively doubling the maximum downstream data rates, while also offering the ADSL2 standard's improvements.

ARPU
Average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period.

ATM (ASYNCHRONOUS TRANSFER MODE)
ATM is a high-speed Wide Area Network (WAN), connection oriented, packet-switching data communications protocol that allows voice, data and video to be delivered across existing local and Wide Area Networks. ATM divides data into cells and can handle data traffic in bursts. It is asynchronous, in that the stream of cells from one particular user is not necessarily continuous.

BANDWIDTH
Bandwidth is a measure of the quantity of signals that can travel over a transmission medium such as copper or a glass fibre strand. It is the space available to carry a signal. The greater the bandwidth, the greater the information carrying capacity. Bandwidth is measured in bits per second.

BNG TECHNOLOGY
The Broadband Network Gateway (BNG) is a multi service edge router. The BNG multi-service edge router replace the Broadband Remote Access Services (BRAS) in the network architecture and significantly enhances the features to support consumer-residential services, Carrier Ethernet and IP VPN business services, as the aggregation router in mobile backhaul applications, or as a mobile gateway for wireless networks.

BROADBAND
Broadband is a method of measuring the capacity of different types of transmission. Digital bandwidth is measured in the rate of bits transmitted per second (bps). For example, an individual ISDN channel has a bandwidth of 64 Kbps, meaning that it transmits 64,000 bits (digital signals) every second.

CAGR
Compound Annual Growth Rate.

CARRIER PRE-SELECTION
Carrier pre-selection is usually initiated by the telecoms regulator. It enables individuals to choose which telecom will carry their traffic (mainly long distance) by a signalling contract rather than having to dial extra digits.

CDMA (CODE DIVISION MULTIPLE ACCESS)
CDMA is one of many technologies for digital transmission of radio signals between, for example, mobile telephones and radio base stations. In CDMA, which is a spread-spectrum modulation technology, each call is assigned a unique "pseudorandom" sequence of frequency shifts that serve as a code to distinguish it. The mobile phone is then instructed to decipher only a particular code to pluck, as it were, the right conversation off the air.

CIRCUIT
A circuit is a connection or line between two points. This connection can be made through various media, including copper, coaxial cable, fibre or microwave. A telephone exchange is a circuit switch.

DECT (DIGITAL ENHANCED CORDLESS TELECOMMUNICATIONS)
DECT is the standard for cordless telephones. DECT phones communicate using the PSTN (Public Switched Telephone Network) through a small base station in the home or office and have a working radius of between 50 and 300 metres.

DSLAM
The Digital Subscriber Line Access Multiplexer (DSLAM) is a network device that receives signals from multiple customer Digital Subscriber Line (DSL) connections, and puts these signals on a high-speed backbone line using multiplexing techniques.

DWDM TECHNOLOGY

Dense Wavelength Division Multiplexing (DWDM) is a fibre optic transmission techniques that makes it possible to transmit data simultaneously, for different sources, using a separate light wavelength for each source across a single fibre. This technology increases the capacity of the fibre infrastructure without the operator having to deploy additional fibres.

EBITDA

EBITDA represents profit for the year before taxation, finance charges, investment income and depreciation, amortisation, impairment and write-offs.

EDGE (ENHANCED DATA FOR GSM EVOLUTION)

EDGE is a technology designed to enhance GSM and TDMA systems with respect to data rates and is widely considered to be the GSM evolution beyond GPRS. It enhances the data capabilities of GSM and TDMA systems by altering the RF modulation scheme to allow greater data rates per time slot. Because it uses a different modulation technique across the air-interface, EDGE requires different mobile terminals/handsets than those designed for the GSM air-interface.

EFFECTIVE TAX RATE

The effective tax rate is the tax charge in the income statement divided by pre-tax profit.

ETHERNET

Ethernet is a protocol that defines how data is transmitted to and received from LANs. It is the most prevalent LAN protocol, with speeds of up to 10 Mbps.

EVDO (EVOLUTION-DATA OPTIMISED OR EVOLUTIONDATA ONLY)

EVDO is a telecommunications standard for the wireless transmission of data through radio signals, typically for broadband internet access. It uses multiplexing techniques including code division multiple access (CDMA) as well as time division multiple access (TDMA) to maximise both individual users' throughput and the overall system throughput.

FDPS

Fibre optic Distribution Points (FDPs) is the fibre endpoint in the Access Network closest to the customer from which Telkom will build out the last mile to the customer premise.

FIBRE OPTICS

Fibre optics is where messages or signals are sent via light rather than electrical signals down a very thin strand of glass. Light transmission enables much higher data rates than conventional wire, coaxial cable and many forms of radio. Signals travel at the speed of light and do not generate nor are subject to interference.

FIBRE RINGS

Fibre rings have come to be used in many fibre networks as it provides more network resiliency: if there is a failure along a route and a ring is broken, the direction of the traffic can be reversed and the traffic will still reach its final destination.

FIXED ACCESS LINES

Fixed access lines comprise public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, and public and private payphones, but excluding internal lines in service.

FIXED ACCESS LINES PER EMPLOYEE

To calculate the number of access lines per employee the total number of access lines is divided by the number of employees at the end of the period.

FIXED-LINE PENETRATION

Fixed-line penetration or teledensity is 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 Government department.

FIXED-LINE TRAFFIC

Fixed-line traffic, other than international outgoing mobile traffic, international interconnection traffic and international Voice over Internet Protocol traffic, is calculated 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.

FMC

Fixed Mobile Convergence (FMC) is an environment/infrastructure that enable the transparent use of voice and data applications across fixed and mobile access points.

FRAME RELAY

Frame relay is a widely implemented telecommunications service designed for cost-efficient data transmission for data traffic between local area networks and between end-points in a wide area network. The network effectively provides a permanent circuit, which means that the customer sees a continuous, dedicated connection, but does not pay for a full-time leased line.

FTTX
Fibre to the X (FTTx) refers to all possible fibre optic topologies, from a service provider to its customers, based on the location of the fibre's termination point. These include fibre-to-the-curb (FTTC: fibre-to-the-home (FTTH); fibre-to-the-building (FTTB); fibre-to-the-premise (FTTP); *et al.*

GPRS (GENERAL PACKET RADIO SERVICE)
GPRS is a packet rather than a circuit-based technology. GPRS allows for faster data transmission speed to both GSM and TDMA (IS-136) networks. GPRS is a packet-switched technology that overlays the circuit-switched GSM network. The service can be introduced to cellular networks by infrastructure.

GSM (GLOBAL SYSTEM FOR MOBILE)
GSM is a second generation digital mobile cellular technology using a combination of frequency division multiple access (FDMA) and time division multiple access (TDMA). GSM operates in several frequency bands: 400 MHz, 900 MHz and 1800 MHz. On the TDMA side, there are eight timeslots or channels carrying calls, which operate on the same frequency. Unlike other cellular systems, GSM provides a high degree of security by using subscriber identity module (SIM) cards and GSM encryption.

HSDPA
High Speed Downlink Packet Access.

IAS
International Accounting Standards.

IFRS
International Financial Reporting Standards.

INTERCONNECTION
Interconnection refers to the joining of two or more networks. Networks need to interconnect to enable traffic to be transmitted to and from destinations. The amounts paid and received by the operators vary according to distance, time, the direction of traffic, and the type of networks involved.

INTEREST COVER
Interest cover is calculated by dividing EBIT by the net interest charge in the income statement. It is a measure of income gearing.

ISDN (INTEGRATED SERVICES DIGITAL NETWORK)
ISDN is a data communications standard used to transmit digital signals over ordinary copper telephone cables. This is one technology for overcoming the "last mile" of copper cables from the local exchange to the subscriber's premises, which has proved a bottleneck for internet access, for example. ISDN allows to carry voice and data simultaneously, in each of at least two channels capable of carrying 64 Kbps. It provides up to 128 Kbps and a total capacity of 144 Kbps exist.

ITU (INTERNATIONAL TELECOMMUNICATIONS UNION)
ITU is the global technical standard-setting body for telecommunications services.

LAN (LOCAL AREA NETWORK)
A LAN is a group of devices that communicate with each other within a limited geographic area, such as an office.

LEASED LINE
A leased line is a telecommunications transmission circuit that is reserved by a communications provider for the private use of a customer.

LIBOR
London Interbank Offer Rate.

LOCAL LOOP
The local loop is the final connection between the exchange and the home or office. It is also known as the last mile.

MICROWAVE
Microwave is radio transmission using very short wavelengths.

MMS (MULTIMEDIA MESSAGING SERVICES)
MMS, a service developed jointly together with 3GPP, allows users to combine sounds with images and text when sending messages, much like the text-only SMS.

MOBILE CHURN
Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period.

MSAN
The multi-Service Access Node provides the boundary between customer interface and the transport network. It makes it possible to offer the customer traditional voice, high-speed DSL and new emerging IP-based services all delivered from the same hardware.

NET DEBT
Net debt is all interest bearing debt finance (long-term and short-term) less cash and marketable securities.

NET DEBT TO TOTAL EQUITY
Net debt to total equity is a measure of book leverage (gearing): net debt in the balance sheet divided by total equity (the sum ofshareholders' funds plus minority interests).

NGN (NEXT GENERATION NETWORK)
A Next Generation Network is a packet-based network able to provide services including telecommunication services and able to make use of multiple broadband, QoS-enabled transport technologies. It offers unrestricted access by users to different service providers.

NOC
The Network Operations Centre (NOC) is the place from which network support staff monitors and maintains the telecommunications network.

OPERATING FREE CASH FLOW
Operating free cash flow is defined as cash flow from operating activities, after interest and taxation, before dividends paid, less cash flow from investing activities.

PACKET SWITCHING
Packet switching is designed specifically for data traffic, as it cuts the information up into small packets, which are each sent across the network separately and are then re-assembled at the final destination. This allows more users to share a given amount of bandwidth. X.25, ATM and frame relay are all packet switching techniques.

POP (POINT OF PRESENCE)
A POP is a service provider's location for connecting to users. Generally, POPs refer to the location where people can dial into the provider's computer. Most providers have several POPs to allow low cost local access via telephone lines.

PSTN (PUBLIC SWITCHED TELEPHONE NETWORK)
The PSTN is a collection of interconnected voice telephone networks, either for a given country or the whole world. It is the sum of the parts. It was originally entirely analogue, but is now increasingly digital (indeed in many developed countries digitisation has reached 100%); these networks can be either state-owned or commercially owned. PSTN is distinct from closed private networks (although these may interconnect to the PSTN) and from public data networks (PDN).

REVENUE PER FIXED ACCESS LINE
Revenue per fixed access line is calculated by dividing total fixed-line revenue during the period, excluding data and directories and other revenue, by the average number of fixed access lines during the period.

RICA
Regulation of Interception of Communication and Provision of Communication-related Information Act.

ROA (RETURN ON ASSETS)
Return on assets is calculated by dividing operating profit by assets affecting operating profit.

SDH (SYNCHRONOUS DIGITAL HIERARCHY)
SDH is used in most modern systems, where multimedia can be transmitted at high speeds. The networks are shaped in a ring, so that if there is a problem, the traffic can be redirected in the other direction and the caller will not detect the interruption.

SMS (SHORT MESSAGE SERVICE)
SMS refers to short, usually text-based messages sent by or to a wireless subscriber. They are not delivered to the recipient instantly and have some degree of transmission time delay. SMS messages are usually limited to total character lengths of 140 to 160 characters.

SWITCH
A switch is a computer that acts as a conduit and director of traffic. It is a means of sharing resources as a network.

TOTAL INTEREST BEARING DEBT
Total interest bearing debt is defined as short and long-term interest bearing debt, including credit facilities, finance leases and other financial liabilities.

TRANSMISSION NETWORK
The transmission network is the portion of the communications network, consisting of digital communication equipment, intended to function as the transport infrastructure for all telecommunication services.

UC
Unified Communications (UC) is the integration of enterprise communications activities which enables situational awareness across people and information within those activities; it also makes it possible to deliver these services seamlessly across multiple applications and platforms.

UMTS (UNIVERSAL MOBILE TELECOMMUNICATIONS SYSTEM)

UMTS is the Western European name for the 3G WCDMA standard adopted as an evolutionary path by the GSM world. However, it utilises the radio spectrum in a fundamentally different manner than GSM. UMTS is based on DCMA technology and the GSM standard is based on TDMA technology.

VOIP (VOICE OVER INTERNET PROTOCOL)

Voice over Internet Protocol is a protocol enabling voice calls to be made over the internet. Rather than a dedicated circuit being set up between the caller and receiver, as with ordinary phone calls, the voice conversation is digitised and transmitted over Internet Protocol using packet-switched data networks.

WAN (WIDE AREA NETWORK)

A WAN comprises LANs in different geographic locations that are connected, often over the public network.

WAP (WIRELESS APPLICATION PROTOCOL)

WAP is an application environment designed to bridge the gap between the mobile and internet worlds. It is a set of communication protocols for wireless devices designed to provide vendor-neutral and technology-neutral access to the internet and advanced telecommunications services.

W-CDMA (WIDEBAND CODE DIVISION MULTIPLE ACCESS)

W-CDMA is a 3G mobile network that supports services like high-speed internet access, video and high-quality voice transmission.

WIMAX

WiMAX is a standard for extending broadband wireless access to new locations and over longer distances. The technology is expected to enable multimedia applications with wireless connectivity and typically with a range of up to 30 km. It is a standard for fixed wireless access with substantially higher bandwidth capabilities than cellular networks. The emergence of further enhancements to the standard will enable nomadic data communications across an entire metropolitan area network linking homes and businesses to the core telecommunications network. WiMAX can be viewed as a technology complementing existing ADSL broadband offerings.

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