Telkom SA Limited
(Registration number 1991/005476/06)
JSE share code: TKG
ISIN: ZAE000044897

Telkom SA Limited Group Annual Results for the year ended 31 March 2012

The information contained in this document is also available on Telkom's investor relations website www.telkom.co.za/ir.

Telkom SA Limited is listed on the JSE Limited. Information may be accessed on Reuters under the symbols TKGJ.J and on Bloomberg under the symbol TKG.SJ. Information contained on Reuters and Bloomberg is provided by a third party and is not incorporated by reference herein. Telkom has not approved or verified such information and does not accept any liability for the accuracy of such information.

Special note regarding forward-looking statements

Many of the statements included in this document, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our mobile and other strategies, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations including but not limited to those risks identified in Telkom's most recent annual report which are available on Telkom's website at www.telkom.co.za/ir.

We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this document, either to conform them to actual results or to changes in our expectations.

GROUP SALIENT FEATURES FOR THE YEAR ENDED 31 MARCH 2012
- ADSL subscribers increased 10.0% to 827,091.
- Calling plan subscribers increased 4.6% to 819,019.
- Managed data network sites increased 13.9% to 38,902.
- Active mobile subscribers increased 213.2% to 1,483,401 with a blended ARPU of R68.86.
- Operating revenue down 0.7% to R33.1 billion.
- Fixed-line employee expenses decreased 15.0% to R6.6 billion.
- Mobile EBITDA loss of R2.2 billion after elimination.
- Group EBITDA margin decreased to 25.8% from 28.1%.
- Fixed-line EBITDA margin increased from 36.8% to 38.6%.
- Basic earnings per share decreased 97.8% to 10.4 cents.
- Headline earnings per share decreased 33.0% to 324.7 cents.
- Free cash flow generated of R2.1 billion (2011: R2.2 billion).
- Net debt to EBITDA remains 0.5x.

1. OVERVIEW
Johannesburg, South Africa – 8 June 2012, Telkom SA Limited (JSE: TKG) today announced Group annual results for the year ended 31 March 2012.

Segment structure
The Group's reporting segments are business units that are separately managed. The Group consists of two reportable segments. The fixed-line segment provides fixed-line access and data communications services and the mobile segment provides mobile voice services, data services and handsets sales through 8•ta.

The "other" category is a reconciling item which is split geographically between International and South Africa. Telkom 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 fixed-line segment and the Group's corporate centre and to reflect the entire operations of Multi-Links as discontinued operations.

Statement by Nombulelo Moholi, Group Chief Executive Officer:
Telkom faces many challenges at the moment but we will advance calmly, determined and focused on delivering on the promise of our business and strategy going forward. Group financial results for the year under review reflects our challenges but we took a number of significant steps towards securing a successful future for Telkom and we began casting the foundation that will allow the Group to compete well and build value in the future. It was a year of clean-up and consolidation across the Telkom Group. Our strategy going forward is clear and focused.

Our results for the year include a R896 million loss relating to the disposal of Multi-Links and an impairment loss of R569 million relating to the iWayAfrica goodwill and assets. Headline earnings per share declined 33.0% from the prior year. This is mainly as a result of the investment made in our mobile business as well as R605 million additional depreciation as a result of the review of the useful lives of existing network equipment as we invest to transform to a commercially led next

generation network. This was partially offset by R739 million voluntary employee severance package costs included in the prior year.

Much has been accomplished in terms of aligning the broader strategy and consolidating our operations but there is much that still needs to be done. The Group faced continued erosion of the traditional fixed-line business with fixed-line traffic revenue decreasing by 8.0%. Despite the decline in traffic volumes and pricing pressure we managed to hold the fixed-line revenue decline to 2.8%. Demand for faster products at lower prices continued to put our data revenue under pressure.

The sale of Multi-Links was concluded in October. While the process faced more challenges than we were anticipating, management is satisfied that Telkom is now better positioned to focus on delivering better results in its core business without further distraction from non-aligned operations. We believe that the negative financial and legal impacts associated with retaining Multi-Links would have had a far more negative impact on the Group than divesting as quickly and proficiently as we did.

We have agreed with the Board an approach to dividend payments that is in the best longer term interests of Telkom.

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.

2. SHARP AND CLEAR STRATEGIC FOCUS

Our strategy going forward is to:

- Lead in data and broadband and in Fixed Mobile Convergence;
- Grow Telkom Business revenues by diversifying the service portfolio;
- Regain market competitiveness in the consumer market;
- Consolidate our position as a wholesaler of choice;
- Focus on profitable market segments and services;
- Enhance our operational efficiency.

The strategic imperatives above were informed by renewing and refining Telkom's tactical initiatives across our key business areas as follows:

- Growing and defending profitable Telkom Business revenues
Telkom Business aims to be the market leader in Converged ICT. We will retain market leadership in fixed communication services, and additionally become the industry leader in converged communications and cloud services. In order to achieve this we will leverage our two biggest assets: our

unmatched business customer base and the unique combination of our fixed network, our mobile network, and our data centre operations.

- Delivering on our investment in Telkom Mobile

We are committed to the mobile business and, although tactics may change from time to time, the broader strategy to defend erosion in our fixed-line business while growing converged delivery channels to our customers remains a key priority. Meeting the growing data demand in South Africa is a core feature of our mobile strategy and it is essential that this be done in such a way that it does not lead to cannibalisation of our other services. Instead, we must offer services that reward the customer for using Telkom's products with varying levels of incentives depending on the customers' level of loyalty.

- Growing and defending profitable revenues in Telkom Consumer Services & Retail

Using Telkom's extensive network and integrating this with consumer related products such as mobile we are uniquely positioned to meet the future demand for converged communications and increased broadband needs. We intend to work more closely with partners to offer value-added broadband services. The products that we would look at investigating are those that are bandwidth intensive. As an example, Telecoms companies worldwide continue to exploit video-on-demand services and Telkom would look into this as a potential future value-added services. The Group recently signed an agreement with electronics manufacturer Samsung to provide entry-level Smart TV services to consumers and we expect further innovations in this regard going forward.

- Transforming and upgrading the Telkom network

Telkom announced our network transformation programme as a key enabler of the Company strategy. We have since achieved major traction against these plans as we work towards delivering an all-IP (internet protocol) network, designed to enable efficiency, fixed-mobile convergence and truly differentiated high speed broadband. The network transformation intent is to take our fibre deeper into the network and smartly leverage a mix of high speed broadband access technologies. Our aggregation network is increasingly able to support super-fast transmission and enable a superior browsing experience. We have also transformed our national and regional transmission networks which has evolved from carrying Gbps to Tbps throughput with great resilience and manageability. Our international connectivity has received a major boost to ensure worldwide reach with superb capacity and resilience. Telkom's network transformation is bound to change the face of broadband capability in South Africa.

3. OPERATIONAL DATA

	Year ended 31 March		
	2011	2012	%
Telkom South Africa			
ADSL subscribers[1]	751,625	827,091	10.0
Calling plan subscribers	783,193	819,019	4.6
Closer subscribers	753,951	787,117	4.4
Supreme call subscribers	29,242	31,902	9.1
WiMAX subscribers	3,199	3,381	5.7
Internet all access subscribers[2]	543,316	523,057	(3.7)
Fixed access lines ('000)[3]	4,152	3,995	(3.8)
Postpaid - PSTN	2,552	2,499	(2.1)

Postpaid – ISDN channels	772	767	(0.6)
Prepaid	703	623	(11.4)
Payphones	125	106	(15.2)
Fixed-line penetration rate (%)	8.3	7.9	–
Revenue per fixed access line (ZAR)	4,863	4,865	–
Total fixed-line traffic (millions of minutes)	20,545	19,372	(5.7)
Local	5,563	4,513	(18.9)
Long distance	2,806	2,683	(4.4)
Fixed-to-mobile	3,563	3,785	6.2
Fixed-to-fixed	104	164	57.7
International outgoing	537	360	(33.0)
Subscription based calling plans	3,988	3,636	(8.8)
Interconnection	3,984	4,231	6.2
Mobile domestic	1,919	1,945	1.4
Mobile international	134	432	222.4
Fixed	951	1,055	10.9
International	980	799	(18.5)
Managed data network sites	34,163	38,902	13.9
Telkom Company employees	22,884	20,939	(8.5)
Fixed access lines per employee[4]	182	191	4.9
Telkom Mobile			
Total subscribers	1,199,596	3,053,393	154.5
Active subscribers[5]	473,604	1,483,401	213.2
Prepaid	440,775	1,039,448	135.8
Post-paid	32,829	443,953	1,252.3
Base stations constructed	970	1,782	83.7
Employees[6]	228	355	55.7
ARPU[5] (Rand)	22.60	68.86	204.7
Prepaid	15.86	20.89	31.7
Post-paid	238.57	206.83	(13.3)
Churn % – prepaid	–	58.9	–
Other International			
iWayAfrica			
Active subscribers[7]	25,184	22,386	(11.1)
Employees	517	479	(7.4)
Customer per employee	49	47	(4.1)
Other South African			
Trudon employees	520	520	–
Swiftnet employees	107	107	–

1. Excludes Telkom internal lines and includes business, consumer, corporate, government and wholesale customers.
2. Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.
3. Excludes Telkom internal lines.
4. Based on number of Telkom Company employees, excluding subsidiaries.
5. Based on a subscriber who has participated in a revenue generating activity within the last 90 days.
6. Included in Telkom Company employees.
7. Excluding UUNet joint venture partner’s subscribers and employees in Kenya.

4. OPERATIONAL OVERVIEW

Voice revenue

Voice revenues declined 6.5% to R12,835 million as a result of lower minutes of use due to mobile substitution and, to a lesser extent, lower tariffs. All categories of voice revenue, except mobile international and

fixed-to-fixed revenue, declined and we expect traditional voice revenue to continue declining. Revenue from subscription based calling plans declined 3.6% to R1,578 million while the total number of subscribers increased 4.6% to 819,019. The slowdown in calling plan revenue growth reflects the increased penetration of these products and the shift of customers to the lower priced Telkom Closer 1 and 2 products.

Broadband and data revenue
Total data revenue decreased 1.7% to R10,517 million as a result of income generated from the Soccer World Cup included in the previous year. Excluding the revenue relating to the 2010 Soccer World Cup, data revenue increased 1.6%. The slow growth is mainly as a result of increased self provisioning by mobile operators, lower internet access revenue and pricing pressures.

ADSL subscribers increased 10.0% to 827,091 when compared to the previous year. Data, however, continues to be an area of growth and we believe the point at which the contributions of data and of voice will be one-to-one is not far off.

Telkom is also heavily focused on increasing broadband and data related revenue to diversify its reliance away from fixed-line voice. To this end, Telkom launched its uncapped ADSL service over the course of the last year. This was a successful initiative and at 31 March 2012 we had 35,093 uncapped ADSL customers. For the first time in the SA market a 'free 3-month broadband' trial was launched by Telkom. Of the total 74,924 customers who applied for the trial we ended up retaining 68% as customers. While this will not have much of an impact on the revenues for the year, it has positively contributed to the growth in subscribers we experienced in the current year with the resultant revenue benefit expected to follow in the 2013 financial year.

Operating expenses
Operating expenditure increased 6.1% to R31,250 million. This was largely due to the inclusion of mobile operating expenditure for the full financial year in 2012, the impairment of iWayAfrica goodwill and assets of R569 million and R605 million additional depreciation as a result of the review of the useful lives of existing network equipment as the Company invests to transform to a commercially led next generation network, partially offset by R739 million voluntary employee severance package costs included in the prior year.

8•ta – Telkom's mobile service
Telkom's commitment to its mobile strategy remains steadfast. While the tactics for achieving our mobile goals may change from time to time, we are committed to the strategy as a whole and believe that mobile is an integral part of ensuring that Telkom grows into the future. We will focus on data to capitalise on the smartphone revolution, develop a high value customer focus to improve ARPU, loyalty and retention and drive fixed mobile convergence through leveraging off a fully IP enabled, next generation fixed-line network.

Telkom Mobile has opened up the network fully for voice as well as data. This means that instead of pushing subscribers onto shared networks we route them onto our own network. It is a significant step for us as it emphasises the fact that we consider our own network to be sufficiently stable to deliver the best possible quality service to our customers.

Since March we have increased our customers using our voice network to over 40%. A total of 85% of our existing data customers are utilising the Telkom network rather than the shared network. We have completed construction of 1,782 base stations of which 1,351 are on air. There have been challenges in terms of finding adequate power on certain of the remaining base stations.

8•ta achieved revenue of R1,200 million and an EBITDA loss before intersegmental eliminations of R2,425 million for the year ended 31 March 2012. Total revenue generating subscribers equalled 1,483,401 with prepaid contributing 1,039,448 and post-paid 443,953. Prepaid ARPU was R20.89 and post-paid ARPU R206.83. Blended ARPU was R68.86.

We launched our Business Mobile products in October 2011. We have built a healthy pipeline but conversion is slow due to customers waiting for their post-paid contracts to expire, the usual corporate sales cycles and very aggressive competitor response. In the 2013 financial year we will focus on the SME market and primarily data services to corporate customers.

Data products that were launched over the year include 8•ta's prepaid 2Gig +1Gig offer for R149pm, 8•ta's prepaid 120Gig Data Bundle, post-paid 10Gig Midnight Surfer, Internet Saver plans as well as Telkom Business Mobile's Shared Internet Bundles.

In the 2013 financial year we aim to reduce our EBITDA losses in mobile by approximately 20% and plan to invest between R2.0 billion and R2.5 billion in capital expenditure.

Cybernest

Cybernest has continued to gain traction in the market. While the majority of the R1,406 million revenue achieved in the year is generated from Telkom, non-Telkom revenue has increased 12.0% to R84 million, with a win rate on new deals approaching 50%.

Cybernest will play an important role in the broader Telkom Business integrated ICT strategy going forward. It is at the heart of our strategy to lead the cloud services market: initial focus is on Infrastructure as a Service (IaaS) and basic Software as a Service (SaaS) such as mail and some small business applications. Subsequent focus will progressively expand to more advanced Iaas and Saas offers. Together with Telkom Business, Cybernest will also address the LAN services segment, which is currently a strategic portfolio gap for the Company, and the IT infrastructure outsourcing market, centred on our "cloud leveraged outsourcing" proposition.

Trudon

Trudon's revenue increased by 1.1% to R1,180 million while operating profit decreased 2.1%.

The core printed directories business has reached maturity in South Africa. To keep pace with the changes in the marketplace, Trudon is evolving from being a publisher of traditional print products to being a local online search solutions provider. Print usage by subscribers has reduced and younger users access information primarily through internet and mobile channels, rather than printed white or yellow pages. Trudon has no choice but to follow this migration and build up its capabilities and

capacity to offer these products. This move required a 35.8% increase in capital investment in the financial year to R72 million.

iWayAfrica
During the year under review iWayAfrica saw a decline in revenues of 10.9% to R368 million. Operating loss excluding the impairment improved 11.5% to a loss of R77 million.

Telkom has taken the decision to rationalise this business. It is acknowledged that a footprint in Africa is desirable but not at any cost to the core Telkom business.

Multi-Links
The sale of Multi-Links was concluded in October 2011. Multi-Links had an operating loss of R269 million for the period up to the sale that is included in discontinued operations.

The sale of Multi-Links resulted in the recognition of a net loss of R896 million mainly due to the cumulative amount of exchange differences previously recognised in equity, which was recognised in profit and loss on disposal of the Multi-Links foreign operation.

Telkom incurred costs of R80 million for the year to exit this business that is included in continuing operations.

Regulatory
The two most pressing regulatory pressures currently are spectrum fees and local loop unbundling. Telkom is committed to continually engage with ICASA for the benefit of both the industry and Telkom.

Spectrum licence fees and access – ICASA introduced Administrative Incentive Pricing (AIP) of spectrum through Regulations on 27 August 2010. These Regulations set the various pricing formulae that will be used in future to determine spectrum fees payable by licensees. The main aim of the regulations is to create incentives for spectrum users to optimise the effective and efficient use of the radio frequency spectrum, by incentivising the use of higher frequencies and in non-urban areas. The objective is to ensure that spectrum fees calculated through AIP reflect the market value of the radio frequency spectrum.

Currently there is uncertainty regarding the implementation of the various formulae and data tables. Telkom and other industry players have had further engagements with the Authority on the regulations. The implementation of these regulations have been postponed by ICASA to 1 April 2012. However, Vodacom is challenging ICASA’s approach to the High Court to obtain confirmation that the postponement is legally valid.

The new proposed fee structure is expected to increase the total spectrum fees payable by Telkom. Telkom is working on various options to reduce this amount using the incentive mechanisms built into the pricing formulae.

Local Loop Unbundling – Local Loop Unbundling (LLU) in its original form is a regulatory mandated process that allows multiple telecommunications operators to access and provide services over the last-mile copper infrastructure (i.e. from the local exchange to the customer premises) that is traditionally owned by the incumbent operator. The risk that LLU

poses to Telkom's profitability is dependent upon the form and details of implementation that will be imposed by ICASA. ICASA has issued a decision document on LLU which stipulates that LLU is to be introduced in a phased approach to minimise disruptions in the ICT sector. A Regulatory Impact Assessment on the costs and benefits of the full loop, sub-loop and shared line forms of LLU will be conducted, commencing in mid-2012. A Market Review will then follow. As part of the phased approach IPConnect prices reduced by 30% effective 1 April 2012. ICASA will engage industry to ensure ways of introducing Bitstream by 1 November 2012. ICASA will also conduct a public consultation process to establish a mechanism to address the existing Access Line Deficit as a precursor to the introduction of the Bitstream product. This decision somewhat reduces the negative impact of LLU on Telkom.

KT Corporation
On 8th May 2012, Telkom announced that it had reached an in-principle agreement with KT regarding the terms of a Potential Strategic Venture that would if implemented result in:

-KT acquiring a strategic equity shareholding of 20% in the post issue ordinary share capital of Telkom by way of a specific issue of shares for cash at a price of R25.60 per new Telkom ordinary share;
- Telkom and KT entering into a 5-year co-source management services agreement to formalise the relationship and identified areas of mutual strategic and business co-operation.

The in-principle agreement was reached following an extensive investigation period into the merits of the Potential Strategic Venture spanning 9 months by the management teams and advisors of KT and Telkom. The Potential Strategic Venture was subject to the fulfillment of the following preconditions:
- Finalising of the transaction agreements comprising a subscription and relationship agreement and a co-source management services agreement;
- Final resolution of the current investigation by the Competition Authorities into the competition complaints against Telkom to the satisfaction of KT;
- Receipt of in-principle support for the Proposed Strategic Venture by the Government of South Africa; and
- Receipt of in-principle support for the Proposed Strategic Venture by Allan Gray and the Public Investment Corporation.

Given the requirement for support from key shareholders for the Proposed Strategic Venture and specifically from the Government of South Africa, Telkom engaged with the Honourable Minister of Communcations and her advisory team regarding the Proposed Strategic Venture during the course of assessing the merits of the transaction.

On 30th May 2012, Telkom was informed by the Honourable Minister of Communications that the proposed transaction between the companies had been presented to the cabinet of the South African Government and that cabinet had taken the decision not to support the transaction as proposed.

Having considered all factors, the board of Telkom, remains of the view that the Potential Strategic Venture would be in the best interest of Telkom, its employees, customers and shareholders. Telkom will continue to engage the South African Government further.

Capital expenditure and funding level

Capital expenditure for the group is expected to range between 20% and 25% of revenue over the 2013 financial year including the impact of our mobile investment and between R18 billion and R21 billion over the next three years.

The targeted net debt to EBITDA is aimed at 1.4 times. In the short term we will operate at lower levels pending the cash outflows associated with the mobile related capital expenditure.

5. FINANCIAL PERFORMANCE

GROUP OPERATING REVENUE

	Year ended 31 March		
In ZAR millions	2011	2012	%
Fixed-line	31,533	30,638	(2.8)
Mobile	81	1,200	1,381.5
Other International			
iWayAfrica	413	368	(10.9)
Other South African			
Trudon	1,167	1,180	1.1
Swiftnet	127	128	0.8
Data Centre Operations	1,240	1,406	13.4
Corporate centre	83	78	(6.0)
Eliminations	(1,336)	(1,919)	43.6
Total	33,308	33,079	(0.7)

Group operating revenue decreased by 0.7% to R33,079 million (2011: R33,308 million) in the year ended 31 March 2012. The decrease is mainly due to lower fixed-line traffic and data revenue partially offset by the inclusion of mobile revenue for a full year. Data Centre Operations includes R1,322 million (2011: R1,165 million) internal revenue received from the fixed-line segment in terms of the transfer pricing policy. This revenue is eliminated on consolidation.

Fixed-line operating revenue

	Year ended 31 March		
In ZAR millions	2011	2012	%
Subscriptions and connections	6,763	6,900	2.0
Traffic	12,045	11,078	(8.0)
Local	2,836	2,409	(15.1)
Long distance	1,588	1,365	(14.0)
Fixed-to-mobile	5,181	5,121	(1.2)
Fixed-to-fixed	78	110	41.0
International outgoing	725	495	(31.7)
Subscription based calling plans	1,637	1,578	(3.6)
Interconnection	1,679	1,757	4.6
Mobile domestic	498	375	(24.7)
Mobile international	186	630	238.7
Fixed	328	262	(20.1)
International	667	490	(26.5)
Data	10,699	10,517	(1.7)
Data connectivity	5,325	5,365	0.8
Leased line facilities	2,182	2,310	5.9
Internet access and related services	1,814	1,689	(6.9)
Managed data network services	1,243	1,101	(11.4)

Multi-media services	135	52	(61.5)
Other	347	386	11.2
Total	31,533	30,638	(2.8)

Operating revenue from the fixed-line segment decreased by 2.8% to R30,638 million (2011: R31,533 million) primarily due to lower traffic revenue and lower data revenue as a result of the inclusion of the revenue generated during the 2010 Soccer World Cup in the prior year, partially offset by higher international interconnection and subscriptions and connections revenue.

Subscription and connections revenue increased by 2.0% to R6,900 million (2011: R6,763 million) largely as a result of higher line and customer premises equipment rental tariffs.

Traffic revenue decreased by 8.0% mainly due to lower local and long-distance revenue as a result of the substitution by mobile ADSL and increased competition through VANS and Neotel. International outgoing revenue also shows a decreasing trend in volumes as a result of increased competition.

Interconnection revenue increased by 4.6% to R1,757 million (2011: R1,679 million) largely as a result of a significant increase in mobile international interconnection revenue as a result of a 222.4% increase in volumes. This was partially offset by a 26.5% decrease in international interconnection revenue due to a decrease in switched hubbing and international incoming volumes as well as the decrease fixed-line termination rates.

Data revenue decreased 1.7% to R10,517 million (2011: R10,699 million) mainly due to the inclusion of the revenue generated from the Soccer World Cup in the prior year, the cancellation of mobile links by other mobile operators, lower SAIX internet access and related revenue and lower growth on VPN supreme. This was partially offset by the inclusion of R239 million revenue received from 8•ta for mobile links during the year that is eliminated on consolidation.

Other revenue increased 11.2% mainly as a result of R105 million subscriber acquisition commissions received from the mobile segment, which are eliminated on consolidation, higher revenue from expired cards and co-location, partially offset by revenue related to the 2010 Soccer World Cup.

GROUP OTHER INCOME

	Year ended 31 March		
In ZAR millions	2011	2012	%
Fixed-line	409	232	(43.3)
Mobile	–	51	100.0
Other International			
iWayAfrica	15	10	(33.3)
Telkom Management Services	8	–	(100.0)
Telkom International	19	21	10.5
Other South African			
Trudon	41	40	(2.4)
Swiftnet	6	3	(50.0)
Corporate centre	150	177	18.0
Eliminations	(108)	45	(141.7)

Total	540	579	7.2

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets as well as interest received from debtors and on loans to subsidiaries. The decrease in fixed-line other income is mainly attributable to the inclusion of the profit on the sale of a portion of our right of use in the SAT-3 undersea cable in the prior year. Mobile other income relates to a donation of two base station controllers received. The corporate centre's other income increased due to the R167 million profit on sale of Multi-Links.

GROUP OPERATING EXPENSES

	Year ended 31 March		
In ZAR millions	2011	2012	%
Employee expenses	9,716	8,636	11.1
Payments to other operators	5,567	5,484	1.5
Selling, general and administrative expenses	5,545	7,193	(29.7)
Service fees	2,886	2,974	(3.0)
Operating leases	764	825	(8.0)
Depreciation, amortisation, impairments and write-offs	4,965	6,138	(23.6)
Total	29,443	31,250	(6.1)

Group operating expenses increased by 6.1% to R31,250 million (2011: R29,443 million) in the year ended 31 March 2012, primarily due to an increase in selling, general and administrative expenses and depreciation, amortisation, impairments and write-offs partially offset by a decrease in employee expenses.

The increase in selling, general and administrative expenses is mainly due to the inclusion of mobile expenses and higher fixed-line marketing and materials and maintenance expenses, partially offset by a decrease in fixed-line bad debts. Depreciation, amortisation, impairments and write-offs include R569 million relating to the impairment of iWayAfrica goodwill and assets. The decrease in employee expenses is due to savings resulting from voluntary severance packages offered in the prior year.

Operating expenditure contribution per segment

	Year ended 31 March		
In ZAR millions	2011	2012	%
Fixed-line	24,484	23,638	3.5
Mobile	1,230	3,895	(216.7)
Other International			
iWayAfrica	556	1,024	(84.2)
Telkom Management Services	36	-	100.0
Telkom International	70	33	52.9
Other South African			
Trudon	695	718	(3.3)
Swiftnet	124	121	2.4
Data Centre Operations	1,054	1,100	(4.4)
Corporate centre	2,584	2,712	(5.0)
Eliminations	(1,390)	(1,991)	(43.2)
Total	29,443	31,250	(6.1)

The 6.1% increase in Group operating expenses was primarily driven by the inclusion of mobile expenses and the iWayAfrica goodwill and asset

impairment of R569 million. This was partially offset by a decrease in employee expenses in the fixed-line segment.

Fixed-line operating expenses

In ZAR millions	Year ended 31 March 2011	2012	%
Employee expenses	7,810	6,641	15.0
Salaries and wages	5,761	5,618	2.5
Benefits	1,832	1,520	17.0
Workforce reduction expenses	650	8	98.8
Employee related expenses capitalised	(433)	(505)	16.6
Payments to other operators	5,193	4,839	6.8
Mobile network operators	3,704	3,218	13.1
International network operators	792	1,029	(29.9)
Fixed-line network operators	404	306	24.3
Data commitments	293	286	2.4
Selling, general and administrative expenses	3,541	3,834	(8.3)
Materials and maintenance	1,843	1,960	(6.3)
Marketing	377	567	(50.4)
Bad debts	361	245	32.1
Other	960	1,062	(10.6)
Service fees	3,158	3,123	1.1
Property management	1,336	1,292	3.3
Security and other	779	663	14.9
Data centre operations intercompany transactions	1,043	1,168	(12.0)
Operating leases	647	620	4.2
Buildings	164	162	1.2
Equipment	31	14	54.8
Vehicles	452	444	1.8
Depreciation, amortisation, impairments and write-offs	4,135	4,581	(10.8)
Depreciation	3,396	3,837	(13.0)
Amortisation	569	538	5.4
Impairments and write-offs	170	206	(21.2)
Total	24,484	23,638	3.5

Fixed-line expenditure decreased 3.5% in the year ended 31 March 2012, to R23,638 million (2011: R24,484 million), primarily due to lower voluntary employee severance package expenses and lower payments to mobile operators due to the reduction in mobile termination rates, partially offset by increased depreciation due to the review of the useful lives of existing network equipment as we invest to transform to a commercially led next generation network.

Employee expenses decreased by 15.0% in the year ended 31 March 2012, primarily due to voluntary employee severance package expenses of R650 million incurred in the prior year and lower headcount and bonuses, partially offset by the average annual salary increases of 5.7%.

Payments to mobile network operators decreased 13.1% largely due to the reductions in mobile termination rates. The decrease in mobile termination rates contributed to a R679 million decrease in payments to mobile operators. Payments to international network operators increased by 29.9% mainly due to higher settlement rates as a result of a change in the mix

of countries dialled and higher settlement rates as a result of foreign currency movements.

Selling, general and administrative expenses increased by 8.3% primarily as a result of higher marketing expenses due to the move of fixed-line specific marketing expenses from the corporate centre to the fixed-line segment, higher materials and maintenance as a result of a drive to reduce the fault rate on the core cable network as well as higher expenditure on the repair of copper theft incidents and direct costs paid to 8•ta, partially offset by lower bad debts.

Service fees decreased by 1.1% primarily due savings on security costs offset by higher intercompany services charged by Cybernest. Intercompany cost is eliminated on consolidation.

Equipment leases decreased mainly due to lower rental of security equipment. Vehicle leases decreased as a result of a 10.2% reduction in the number of vehicles from 7,606 to 6,833 partially offset by inflation and fuel increases.

Depreciation increased 13.0% due to accelerated depreciation as a result of the review of the useful lives of existing network equipment as we invest to transform to a commercially led next generation network.

Mobile operating expenses

	Year ended 31 March		
In ZAR millions	2011	2012	%
Employee expenses	140	195	(39.3)
Payments to other network operators	161	449	(178.9)
Selling, general and administrative expenses	769	2,536	(229.8)
Service fees	87	397	(356.3)
Operating leases	27	99	(266.7)
Depreciation, amortisation, impairments and write-offs	46	219	(376.1)
Total	1,230	3,895	(216.7)

Mobile expenditure increased 216.7% in the year ended 31 March 2012 to R3,895 million (2011: R1,230 million), mainly due to the inclusion of expenditure for the full year. 8•ta was launched in October 2010.

Employee expense increase due to a 39.3% increase in 8•ta employees since March 2011 to 355 employees.

Payments to other operators consist mainly of interconnection payments to other operators and payments to MTN in terms of the roaming agreement. The increase is due to the significant increase in mobile outgoing traffic from the previous year.

The increase in selling, general and administrative expenses is mainly due to an increase in direct network cost, maintenance, cost of handsets sold, marketing expenses and bad debts.

Service fees relate to the intercompany charge by Cybernest for services rendered of R246 million (2011: R6 million) that is eliminated on consolidation.

Operating leases relate mostly to rental of buildings.

Corporate centre operating expenses

In ZAR millions	Year ended 31 March 2011	2012	%
Employee expenses	1,076	1,162	(8.0)
Payments to other network operators	-	-	-
Selling, general and administrative expenses	496	388	21.8
Service fees	704	893	(26.8)
Operating leases	11	20	(81.8)
Depreciation, amortisation, impairments and write-offs	297	249	16.2
Total	2,584	2,712	(5.0)

Employee expenses increased 8.0% mainly as a result of an increase in interest cost on the Telkom Retirement Fund and an increase in the post-retirement medical aid liability mainly due to an increase in interest and service costs. This was partially offset by lower bonuses.

Selling, general and administrative expenses decreased 21.8% mainly as a result of moving fixed-line specific marketing expenses to the fixed-line segment.

Service fees increased 26.8% mainly due to higher consulting fees, electricity, transport and legal costs.

Operating leases increased 81.8% due to an increase of the percentage office space allocated to the corporate centre personnel based on an office location compliance process completed during the year.

Depreciation, amortisation, impairments and write-offs decreased 16.2% mainly due to lower write offs on support equipment in the current year.

EBITDA PER SEGMENT

In ZAR millions	Year ended 31 March 2011	2012	%
Fixed-line	11,593	11,813	1.9
EBITDA margin (%)	36.8	38.6	
Mobile	(1,103)	(2,425)	(119.9)
EBITDA margin (%)	(1,361.7)	(202.1)	
Other International	(116)	(45)	61.2
EBITDA margin (%)	(28.1)	(12.2)	
Other South African	(959)	(917)	4.4
EBITDA margin (%)	(36.6)	(32.8)	
Eliminations	(45)	120	366.7
Total	9,370	8,546	(8.8)

INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 11.7% to R238 million (2011: R213 million), as a result of higher interest and dividends received by the cell captive.

FINANCE CHARGES AND FAIR VALUE MOVEMENTS

Finance charges and fair value movements 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 gains and losses on foreign currency denominated transactions and balances.

Finance charges and fair value movements increased by 75.3% to R1,872 million (2011: R1,068 million) in the year ended 31 March 2012. The increase was mainly as a result of foreign exchange and fair value losses of R1,107 million (2011: R170 million) due to the cumulative amount of exchange differences of R1,292 million previously recognised in equity, now recognised in profit and loss on disposal of Multi-Links, partially offset by fair value gains on forward exchange contracts and interest rate swap agreements. The interest expense decreased 14.8% to R765 million (2011: R898 million) as a result of a 14.0% decrease in the Group's interest-bearing debt to R7,186 million (2011: R8,355 million).

TAXATION

The consolidated tax expense from continuing operations decreased to R595 million (2011: R979 million) mainly due to lower deferred tax as a result of the foreign exchange losses realised on the disposal of Multi-Links and the accelerated depreciation on network equipment and lower Secondary Tax on Companies as a result of lower dividend paid. The consolidated effective tax rate for the year ended 31 March 2012 was 76.7% (2011: 30.8%). Excluding the effects of the sale of Multi-Links and the Group impairment of iWayAfrica the consolidated effective tax rate is 33.4%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's financial position remains strong. Net debt, after financial assets and liabilities, from continuing operations decreased by 19.8% to R3,933 million from R4,907 million as at 31 March 2011 resulting in a net debt to EBITDA ratio of 0.5 times at 31 March 2012 and 2011. On 31 March 2012, the Group had cash balances of R1,165 million (2011: R1,773 million).

The decrease in cash is mainly attributable to the repayment of a portion of the syndicated loan. We repaid R1.3 billion during the year.

The Group's current assets exceeded current liabilities by R497 million. The current portion of the interest-bearing debt increased due to the TL12 bond of R1,060 million that matured in April 2012.

FREE CASH FLOW

	Year ended 31 March		
In ZAR millions	2011	2012	%
Cash generated from operations before dividends paid	6,778	6,704	(1.1)
Less: Cash flows from investing activities	(4,545)	(4,570)	(0.6)
Free cash flow	2,233	2,134	(4.4)

The Group's free cash flow decreased 4.4% to R2,134 million from R2,233 million as at 31 March 2011. The decrease in the free cash flow is mainly as a result of the inclusion of higher mobile operating expenditure in the 2012 financial year offset by the R608 million settlement paid for the Telcordia dispute and the additional R500 million invested into the Cell Captive in the prior year.

GROUP CAPITAL EXPENDITURE

Group capital expenditure which includes spend on intangible assets, increased 5.3% to R4,783 million (2011: R4,541 million) and represents 14.5% of Group revenue (2011: 13.6%).

	Year ended 31 March		
In ZAR millions	2011	2012	%
Fixed-line	2,835	3,151	11.1
Mobile	1,475	1,372	(7.0)
Other International			
iWayAfrica	11	8	(27.3)
Other South African			
Trudon	53	72	35.8
Swiftnet	16	42	162.5
Data Centre Operations	107	57	(46.7)
Corporate centre	44	81	84.1
Total	4,541	4,783	5.3

Fixed-line capital expenditure is discussed in detail below. The increase in corporate centre capital expenditure was mainly on operating system improvements for supplier management.

Fixed-line capital expenditure

	Year ended 31 March		
In ZAR millions	2011	2012	%
Baseline	1,736	1,822	5.0
Network evolution	550	733	33.3
Sustainment	101	145	43.6
Effectiveness and efficiency	155	102	(34.2)
Support	265	304	14.7
Regulatory and other	28	45	60.7
Total	2,835	3,151	11.1

Fixed-line capital expenditure, which includes spending on intangible assets, increased by 11.1% to R3,151 million (2011: R2,835 million) and represents 10.3% of fixed-line revenue (2011: 9.0%).

Baseline capital expenditure of R1,822 million (2011: R1,736 million) was largely for the deployment of technologies to support the growing data services business, links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and business areas. The lower expenditure for the period can be attributed to a more measured approach to the rollout of infrastructure to meet short-term demand and revenue generating services. The increased expenditure for the period can be attributed to the aggressive broadband marketing campaign designed to stimulate growth in the ADSL footprint.

Expenditure on network evolution of R733 million (2011: 550 million) was mainly to continue with the submarine cable projects to address international growth expected during the next decade and to provide next generation voice infrastructure on the national transport network as well as to relieve identified capacity requirements. The increase in expenditure is as a result of the investment on the commercially led next generation network, specifically on operating support systems as well as the pilot roll-out.

The sustainment category expenditure of R145 million (2011: R101 million) was largely for the replacement of obsolete batteries and direct-current power systems as well as the replacement and modernisation of the access and core network.

Telkom continues to focus on its operations support systems with current emphasis on provisioning and fulfilment, assurance and customer care and hardware technology upgrades on the enterprise networks. During the year ended 31 March 2012, R102 million (2011: R155 million) was spent on the implementation of several systems.

The support capital expenditure of R304 million (2011: R265 million) is mainly for provision of new buildings and building extensions in support of network growth and for the compliance upgrading of existing equipment buildings, including the associated AC power and air-conditioning.

The expenditure on regulatory requirements of R45 million (2011: R28 million) is primarily to institute regulatory changes to customer-facing functions.

Board approval

The condensed consolidated provisional annual financial statements of Telkom SA Limited, were approved by the board of directors on 7 June 2012 and signed on its behalf by Mr PL Zim(Chairman) and Mrs NT Moholi(Group Chief Executive Officer).

Preparer and supervisor of annual financial statements

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

Audit opinion

The consolidated annual financial statements, from which these condensed consolidated provisional financial statements have been derived, have been audited by the Company’s auditors, Ernst & Young Inc. Their unqualified audit opinion is available for inspection at the Company’s registered office.

Condensed consolidated provisional statement of comprehensive income for the year ended 31 March 2012

	Notes	Restated* 2011 Rm	2012 Rm
Continuing operations			
Total revenue	4	33,879	33,668
Operating revenue		33,308	33,079
Other income		540	579
Operating expenses		29,443	31,250
Employee expenses	6.1	9,716	8,636
Payments to other operators		5,567	5,484
Selling, general and administrative expenses	6.2	5,545	7,193
Service fees		2,886	2,974

Operating leases		764	825
Depreciation, amortisation, impairment and write-offs	6.3	4,965	6,138
Results from operating activities		4,405	2,408
Investment income		213	238
Finance charges and fair value movements		1,068	1,872
Interest		898	765
Foreign exchange and fair value losses		170	1,107
Profit before taxation		3,550	774
Taxation	7	979	595
Profit from continuing operations		2,571	179
Loss from discontinued operations	8	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	9	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)	10	239.9	(42.3)
Continuing operations			
Basic and diluted earnings per share (cents)	10	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.

Condensed consolidated provisional 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		37,304	36,155
Intangible assets		3,965	3,555

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

Condensed consolidated provisional statement of changes in equity for the year ended 31 March 2012

	2011	2012
	Rm	Rm

Balance at 1 April	30,264	30,022
Attributable to owners of Telkom	29,925	29,635
Non-controlling interests	339	387
Total comprehensive income/(loss) for the year	1,259	(78)
Profit/(loss) for the year	1,342	(90)
Other comprehensive (loss)/income	(83)	12
Exchange differences on translating foreign operations	30	(30)
Available-for-sale investment	-	(5)
Net defined benefit plan (losses)/gains and asset limitations	(113)	47
Dividend declared	(1,587)	(814)
Reserves held for sale realised on disposal of Multi-Links Telecommunications Limited	-	1,011
Increase in share-based compensation reserve	86	-
Balance at 31 March	30,022	30,141
Attributable to owners of Telkom	29,635	29,707
Non-controlling interests	387	434

Condensed consolidated provisional statement of cash flows
for the year ended 31 March 2012

	Note	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		8,093	7,704
Interest received		498	484
Finance charges paid		(635)	(564)
Taxation paid		(1,178)	(920)
Cash generated from operations before dividend paid		6,778	6,704
Dividend paid		(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*	12	1,773	1,165

* For cash flow activities on discontinued operations refer to note 8.

Notes to the condensed consolidated provisional annual financial statements for the year ended 31 March 2012

1. Corporate information

Telkom SA Limited (Telkom) is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The main objective of Telkom, its subsidiaries and joint ventures (the Group) is to supply telecommunication, 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.

2. Significant accounting policies

Basis of preparation

The condensed consolidated provisional annual financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and in compliance with the Listings Requirements of the Johannesburg Stock Exchange Limited (JSE) and the South African Companies Act, 2008.

The condensed consolidated provisional 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 condensed consolidated provisional annual financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value and share-based payments which are measured at grant date fair value.

Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated provisional annual financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 March 2011.

Significant accounting policies

Except as described below, the accounting policies applied by the Group in the condensed consolidated provisional annual financial statements are consistent with those applied in the prior 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 the annual financial statements.

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 9.

IAS 34 Interim Financial Reporting

The amendment clarifies that it is unnecessary for interim financial statements to provide relatively insignificant updates as the users of financial statements have access to the most recent annual report.

The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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 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. 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)

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)

IAS 34 Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities (effective 1 January 2013)

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 Telecommunications Limited's (Multi-Links) operations as discontinued operations. Refer to note 8 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 intersegmental 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 intersegmental transactions	(54)	(50)
Reconciliation		
Adjusted EBIT for reportable segments	4,446	2,810
Profit on disposal of subsidiary	–	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
4. 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)	358	351

Investment income	213	238

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 Soccer World Cup in the prior year, offset by an increase in mobile revenue.

	2011 Rm	2012 Rm
5. Disposal group		
Disposal of Multi-Links Telecommunications Limited (Multi-Links)		
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 effective date of the sale was 3 October 2011.		
Amounts included in the statement of comprehensive income:		
Other income (profit on disposal of subsidiary)*	–	(167)
Foreign exchange and fair value losses**	–	1,292
Taxation	–	(229)

* 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.

** 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 the Multi-Links foreign operation.

	Restated 2011 Rm	2012 Rm
6. Operating expenses		
6.1 Employee expenses	9,716	8,636
The decrease in employee expenses is 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.		
6.2 Selling, general and administrative expenses	5,545	7,193
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.		
6.3 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	701
Impairment of property, plant and equipment and intangible assets	41	569
Write-offs of property, plant and equipment and intangible assets	186	260

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.

7. Taxation	979	595
South African normal company taxation	722	1,026
Deferred taxation	97	(494)
Secondary Taxation on Companies (STC)	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, an increase in provisions and the realisation of foreign exchange losses on the disposal 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 current 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.

8. 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.

Analysis of the results of 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 re-measurement of assets of disposal group to fair value less cost to sell	(215)	–
Pre-tax loss recognised on the remeasurement of assets of disposal group to fair value less cost 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
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	–
Reserve of disposal group classified as held for sale		
Exchange differences on translating the disposal	(1,033)	–

group (included in other comprehensive income)

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 in 2012 are up to 3 October 2011.

9. 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
10. Earnings per share		
Total operations		
Basic and diluted earnings/(loss) per share (cents)*	239.9	(42.3)
Headline earnings and diluted headline earnings per share (cents)**	332.4	310.8
Continuing operations		
Basic and diluted earnings per share (cents)*	481.2	10.4
Headline earnings and diluted headline earnings per share (cents)**	484.8	324.7
Discontinued operations		
Basic and diluted loss per share (cents)*	(241.3)	(52.7)
Headline loss and diluted headline loss per share (cents)**	(152.4)	(13.9)
Reconciliation of weighted average number		

of ordinary shares:		
Ordinary shares in issue	520,783,900	520,783,900
Weighted average number of treasury shares	(11,472,604)	(10,190,084)
Weighted average number of shares outstanding	509,311,296	510,593,816
Reconciliation of diluted weighted average number of ordinary shares		
Weighted average number of shares outstanding	509,311,296	510,593,816
Expected future vesting of shares	-	-
Diluted 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.

	Rm	Rm
Total operations		
Reconciliation between earnings and headline earnings:		
Profit/(loss) from total operations	1,342	(90)
Non-controlling interests	(120)	(126)
Earnings/(loss) as reported	1,222	(216)
Profit on disposal of property, plant and equipment and intangible assets	(182)	(53)
Profit on disposal of subsidiary	-	(167)
Foreign exchange differences realised on disposal of subsidiary	-	1,292
Impairment loss on property, plant and equipment and intangible assets	494	767
Write-offs of property, plant and equipment and intangible assets	186	254
Tax effects	(27)	(290)
Headline earnings	1,693	1,587

	Restated 2011 Rm	2012 Rm
Continuing operations		
Reconciliation between earnings and headline earnings:		
Profit from continuing operations	2,571	179
Non-controlling interests	(120)	(126)
Earnings from continuing operations attributable to equity holders of Telkom	2,451	53
Profit on disposal of property, plant and equipment and intangible assets	(182)	(53)
Profit on disposal of subsidiary	-	(167)
Foreign exchange differences realised on disposal	-	1,292

of subsidiary		
Impairment loss on property, plant and equipment and intangible assets	41	569
Write-offs of property, plant and equipment and intangible assets	186	254
Tax effects	(27)	(290)
Headline earnings	2,469	1,658
Discontinued operations		
Reconciliation between earnings and headline earnings:		
Loss from discontinued operations	(1,229)	(269)
Non-controlling interests	–	–
Loss from discontinued operations attributable to equity holders of Telkom	(1,229)	(269)
Impairment loss on property, plant and equipment and intangible assets	453	198
Headline loss	(776)	(71)
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.

	2011 Rm	2012 Rm
11. Capital additions and disposals		
Property, plant and equipment		
Additions	4,333	4,022
Disposals	(169)	(130)
Intangible assets		
Additions	431	813
Disposals	(2)	–

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

Intangible assets additions mainly relate to software and the connection incentive bonus.

12. 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)

The decrease in cash and bank balances and short-term deposits is mainly due to the repayment of a portion of the syndicated loan.

13. Interest-bearing debt		
Non-current interest-bearing debt	8,198	5,897
Local debt	6,918	4,649
Foreign debt	429	478

Finance leases	851	770
Current portion of interest-bearing debt	157	1,289
Local debt	-	1,060
Foreign debt	98	148
Finance leases	59	81

Repayments
A significant portion of the syndicated loan was paid during the year and the remainder classified as current portion of interest-bearing debt as it is due in the 2013 financial year. This current portion is expected to be repaid from available, operational cash flows or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the date of repayment.

14. Provisions

Non-current portion of provisions	4,740	4,916
Employee related	4,711	4,880
Non-employee related	29	36
Current portion of provisions	2,018	1,892
Employee related	1,932	1,652
Non-employee related	86	240

The increase in non-current provisions is mainly due to the increase in post-retirement medical aid provisions as a result of medical inflation.

The increase in current non-employee related provisions is mainly due to certain legal matters that have been disclosed in the contingencies (refer to note 16).

15. Commitments

Capital commitments authorised	7,522	7,480
Commitments against authorised capital expenditure	1,072	827
Authorised capital expenditure not yet contracted	6,450	6,653

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

Included in the commitments against authorised capital expenditure and authorised capital expenditure not yet contracted, is R546 million (2011: R873 million) and R1,160 million (2011: R1,132 million), respectively, which relates to Telkom Mobile.

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

16. 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.

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 Internet Solutions (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;
- 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 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.

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 6 (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 Communications 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 Communications Services (IECS) and Individual Electronic Communications Network Services (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 sections 67(1)(a) – (b) of the ECA read with sections 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 ICASA's Complaint and Compliance Committee (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 3 (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, 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 judgment 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.

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 APSN was appointed for an initial period of 10 (ten) years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (the agreement). On 29 May 2009, APSN 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 arbitration proceedings in South Africa (as per contract) against Multi-Links claiming damages (9 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 2012 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 the 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.

	2011 Rm	2012 Rm
17. Related parties		
Details of material transactions and balances with related parties 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 the Public Investment Corporation held 10.5% (2011: 10.9%) of Telkom's shares.

With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	25	11
Trade payables	(1)	(1)
Related party transactions		
Revenue	(332)	(381)
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

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

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.

18. 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.