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 2010

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 2010

- Vodacom transaction accounts for profit of R40.5 billion.
- Impairment of Multi-Links goodwill of R2,148 million and assets of R3,012 million.
- Normalised operating revenue up 0.7% to R37.0 billion
- Capital expenditure reduced by 44.2% to R5.4 billion.
- Normalised free cash flow of R5.5 billion
- Normalised net financing costs decreased 44.3% to R1.4 billion.
- Net debt reduced by R10.8 billion decreasing normalised net debt to EBITDA from 1.3 times to 0.5 times.
- Normalised headline earnings per share from continuing operations decreased by 11.2% to 473.0 cents.
- Normalised basic earnings per share decreased 12.0% to 425.2 cents per share.
- Normal dividend declared increased 8.7% to 125 cents per share from 115 cents per share.
- Special dividend declared from Vodacom proceeds of 175 cents per share.
- ADSL subscribers increase 18.1% to 647,462.

1. OVERVIEW

Johannesburg, South Africa – 21 June 2010, Telkom SA Limited (JSE: TKG) today announced Group annual results for the year ended 31 March 2010.

The reported results for the period are materially impacted by the accounting for the sale and unbundling of our 50% stake in Vodacom and related transactions and the impairment of the goodwill and assets of Multi-Links.

Unless otherwise indicated, the discussion below is based on normalised results, excluding the items above, and is based on continuing operations as reconciled below.

Segment structure

The Group’s reporting segments are business units that are separately managed. Our Group consists of three segments. The Telkom South Africa segment provides fixed-line access and voice services, fixed-mobile and data communications services through Telkom South Africa. The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria through the Multi-Links subsidiary. The other segment is split geographically between international and South Africa. The category, other international provides internet services outside South Africa, through our Africa Online and MWEB Africa subsidiaries and management services through our Telkom Management Services Company. The Other South African category includes the Trudon Group, Swiftnet and the Group’s corporate centre.

Our 50% share of Vodacom’s results in the 2009 financial year and Telkom Media’s results are disclosed as discontinued operations in terms of IFRS5 in the Telkom Group’s consolidated financial statements.

Normalised Group operating revenue from continuing operations increased 0.7% to R37.0 billion, while EBITDA decreased 15.2% to R9.8 billion. The normalised Group EBITDA margin decreased to 26.5% as at 31 March 2010, compared to 31.5% at 31 March 2009, mainly due to higher operating expenditure of Telkom South Africa and Multi-Links.

Normalised headline earnings from continuing operations decreased by 11.2% to 473.0 cents per share as a result of increased operating expenditure in Telkom South Africa and Multi-Links, partially offset by lower finance charges. Normalised basic earnings per share decreased 12.0% from 483.1 cents per share to 425.2 cents per share at 31 March 2010.

Normalised return on assets before taxation decreased from 16.3% to 13.6% due to the lower operating profit partially set off by a lower asset base and excludes cash balances.

Statement by Reuben September, Chief Executive Officer:
"The year under review has been tough with muted revenue growth as a result of low tariff increases, intensifying competition and high operating expense growth as a result of inventory write-offs in both Telkom SA and Multi-Links and employee expense growth in excess of inflation as a result of salary increases of 11.2% following our agreement with the unions. The inventory write-offs are as a result of technologically obsolete and slow moving inventory and are unlikely to continue into the future. As a result our EBITDA margin declined to 26.5% from 31.5% recorded at 31 March 2009. Lower taxation, lower finance charges and increased investment income resulted in a more modest normalised headline earnings per share decline of 11.2% to 473.0 cents per share.

The impact of competition and the weaker economic environment are evident in the Telkom Group's financial results for the year ended 31 March 2010. The negative effect of growing competition and fixed-to-mobile substitution is highlighted in the 9.3% decrease in Telkom South Africa's traffic revenue. This continuing trend justifies the imperative for the Group to enter the mobile market and particularly the mobile data market. Notably our continued efforts to move traditional traffic revenues into annuity-type subscription products contributed to the decline in traditional traffic revenue but offers customers value based alternatives. In addition, data revenue posted more modest revenue growth of 7.1% as a result of increased competition and pricing pressure.

Our group operating expenditure grew 8.4% to R32.7 billion. The sharply lower level of increase in the second half of the financial year is evidence of our efforts to reduce costs. The cost reduction programme is at an early stage of implementation and we are confident the pace of reduction will increase and we remain committed to reducing costs.

The Group exhibited strong management of the capital expenditure programme spending of R5.4 billion for the year ended 31 March 2010, down 44.2% from the R9.6 billion spent in the 2009 financial year. As a result, normalised free cash flow improved significantly to R5.5 billion. Lower finance charges and acquisitions as well as higher interest received also contributed to the improvement. We have stated very clearly that every effort will be made to continuously improve the cash flow position. We still have an extremely healthy net debt position with annualised net debt to EBITDA of 0.5 times.

Our strategy seeking to re-position the Telkom Group is imperative given the tough operating environment. Similar to the strategies of other leading operators in the world, we are focusing on growing other revenue streams – data centre operation, mobile and Africa – to compensate for the decline in fixed voice revenues. We are improving our execution in current

growth markets, such as broadband and wholesale, and are taking actions to defend our consumer and enterprise markets.

Multi-Links remains a major concern. We have impaired goodwill of R2,148 million and assets of R3,012 million in the current year bringing the total impairment to date to R5,622 million and thereby fully impairing the goodwill and net asset value. The Board of Directors is considering how best to reduce exposure to risk in Nigeria.
Despite the difficulties, the commitment of my team to positioning Telkom to aggressively compete in the South African and African markets is gaining momentum. Our data centre operations, branded Cybernest, was launched on 19 November 2009. This initiative is further evidence of our drive to diversify and grow our revenue streams and take costs out of our current operations.

I am confident that the strength inherent in the fixed-line network and the business leadership and operations skills of our employees will allow us to offer our markets simple, quality, cost effective services that will be competitive in our markets."

Declaration of ordinary and special dividend
The ordinary dividend has been calculated with reference to Telkom's current and expected future debt and cash flow levels. Our commitment to return to shareholders any proceeds from the Vodacom transaction not utilised within 24 months enables us to pay a further special dividend of 175 cents per share (2009: 260 cents). The level of dividend payments going forward will be based on a number of factors, including the consideration of the financial results, capital and operating expenditure requirements, the Group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

Ordinary dividend number 15 of 125 cents per share (2009: 115 cents) and special dividend of 175 cents per share (2009: 260 cents) in respect of the financial year ended 31 March 2010 have been declared payable on Monday, 19 July 2010 to shareholders recorded in the register of the company at close of business on Friday, 16 July 2010.

Holders of ordinary shares
Salient dates with regard to the ordinary and special dividend 2010

Last date to trade cum dividend	Friday, 9 July 2010
Shares trade ex dividend	Monday, 12 July 2010
Record date	Friday, 16 July 2010
Payment date	Monday, 19 July 2010

Share certificates may not be dematerialised or rematerialised between Monday, 12 July 2010 and Friday, 16 July 2010, both days inclusive.

On Monday 19 July 2010, dividends due to holders of certificated securities on the South African register will either be transferred electronically to shareholders' bank accounts or, in the absence of suitable mandates, dividend cheques will be posted to such shareholders.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant CSDP or broker.

2. OPERATIONAL DATA

	Year ended 31 March		
	2009	2010	%
Telkom South Africa			
ADSL subscribers[1]	548,015	647,462	18.1
Calling plan subscribers	590,590	715,221	21.1
Closer subscribers	575,812	694,348	20.6
Supreme call subscribers	14,778	20,873	41.2
W-CDMA subscribers	5,253	16,299	210.3
WiMAX subscribers	2,615	2,979	13.9
Do Broadband subscribers	188,540	236,512	25.4
Fixed access lines ('000)[2]	4,451	4,273	(4.0)
Postpaid – PSTN	2,769	2,625	(5.2)
Postpaid – ISDN channels	781	784	0.4
Prepaid	766	744	(2.9)
Payphones	135	120	(11.1)
Fixed-line penetration rate (%)	9.1	8.7	(4.4)
Revenue per fixed access line (ZAR)	5,349	5,345	(0.1)
Total fixed-line traffic (millions of minutes)	24,869	23,082	(7.2)
Local	8,822	6,963	(21.1)
Long distance	3,631	3,238	(10.8)
Fixed-to-mobile	4,113	3,646	(11.4)
Fixed-to-fixed	13	47	261.5
International outgoing	622	595	(4.3)
International VoIP	34	60	76.5
Subscription based calling plans	3,546	3,805	7.3
Interconnection	4,088	4,728	15.7
Domestic mobile interconnection	2,484	2,319	(6.6)
Domestic fixed interconnection	415	736	77.3
International interconnection	1,189	1,673	40.7
Managed data network sites	29,979	33,226	10.8
Internet all access subscribers[3]	423,196	511,535	20.9
Telkom Company employees	23,520	23,247	(1.2)
Fixed access lines per employee[4]	189	184	(2.6)
Multi-Links			
Active subscribers	1,866,196	2,256,835	20.9
CDMA	1,863,131	2,210,925	18.7
EVDO	2,699	45,340	–
Data leased lines	366	570	55.7
Total traffic (millions of minutes)	1,780	1,125	(36.8)
Estimated CDMA market share (%)	32.8	25.8	(21.3)
Market penetration (%)			
GSM (%)	90.0	88.0	(2.2)
CDMA (%)	7.2	10.0	38.9
Fixed (%)	2.4	2.0	(16.7)
Employees	1,124	767	(31.8)
Permanent	775	539	(30.5)
Expatriate	95	60	(36.8)
Temporary	254	168	(33.9)
Customer per employee	1,660	2,942	77.2
Other International			
Africa Online subscribers[5]	18,441	15,607	(15.4)
Africa Online employees[5]	313	237	(24.3)
MWEB Africa subscribers	n/a	19,777	n/a
MWEB Africa employees	n/a	325	n/a
Other South African			

Trudon employees	531	528	(0.6)
Swiftnet employees	93	135	45.2

1. Excludes Telkom internal lines and includes business, consumer, corporate, government and wholesale customers.
2. Excludes Telkom internal lines.
3. Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.
4. Based on number of Telkom Company employees, excluding subsidiaries.
5. Excluding UUNet joint venture partner's subscribers and employees in Kenya.

3. OPERATIONAL OVERVIEW

Telkom South Africa

The restructuring of Telkom South Africa into leaner, more flexible business units is complete, allowing for focused attention on revenue growth opportunities. Accountability throughout the organisation has improved along with our ability to identify and manage costs more closely.

We are confident that our initiatives will enable Telkom to be the wholesale provider of choice for operators in the market. Our retail business for both corporate and residential customers is focused on providing an independent, quality and value focused service.

Voice revenue

The continued competitive pressure in the voice market has seen declines in our traffic revenue streams. This is as a result of our drive to offer significant value through annuity products, managed network services and virtual private networks which shifts traffic revenue into other revenue streams. The effect of fixed-to-mobile substitution and least cost routing is also clear, as is the need for us to develop a mobile service in order to win back traffic onto the Telkom network. We continue to focus on growing our annuity revenue streams through subscription based calling plans. Voice annuity revenue grew 3.7% to R7,664 million and data annuity revenue grew 7.1% to R9,969 million. Telkom Closer subscribers have increased 20.6% to 694,348 and Supreme call subscribers have increased 41.2% to 20,873. The current line penetration rate for Closer packages is 53.5%, up from 41.7% at 31 March 2009.

We continue to focus on improving customer churn, increasing customer loyalty and promoting the value offered by fixed-line converged services through many initiatives such as continued enhancement to the Closer packages, free line installation to all of Telkom's ex customers, telemarketing and direct marketing.

Interconnection revenue

Interconnection revenue increased 25.1% to R2,608 million reflecting the increased volumes on switched hubbing and higher volumes carried on mobile networks to international destinations and the growth of Neotel and VANs. Margins on foreign interconnection revenues have declined as a result of the strength of the Rand and timing delays in adjusting pricing in line with developments in foreign markets.

Mobile and fixed-line termination rate developments

On 12 November 2009 the Minister of Communications announced a reduction in the peak mobile interconnect rate from 125 cents to 89 cents. Off-peak

mobile rates are unchanged at 77 cents. This was brought into into effect by ICASA from February 2010 with MTN adopting it a month later.

On 16 April 2010 ICASA proposed an additional set of rate cuts that would take both fixed and mobile operators on a two year glide path down to 10 cents (fixed) and 40 cents (mobile) as applied to "established Significant Market Players" (SMP) operators which include Telkom, MTN, Vodacom and Cell-C only. All other operators are requested to use cost based interconnection, however are not regulated accordingly as only the established Significant Market Player operators are submitting Chart of Accounts and Cost Allocation Manual, or COA/CAM accounts. It is uncertain whether the mobile glide paths applies to Telkom Mobile as well, however a literal reading of the regulation implies it does. ICASA in addition plans to abolish the difference between peak and off-peak rates for all the established SMP operators. Also to the extent that only a single termination rate is proposed for fixed services, ICASA appears to enforce a distance independent tariff regime on Telkom, as opposed to the current local/long distance based regime. The final outcome of current negotiations regarding the glide path for mobile termination rates between ICASA and operators is difficult to predict. Telkom is in the process of responding to the regulation and considering our options.

Broadband and data revenue
ADSL subscribers increased 18.1% to 647,462 when compared to the 31 March 2009 reporting period. At 30 September 2009 ADSL subscribers totalled 602,720. Do Broadband subscribers have increased 25.4% to 236,512. At 30 September 2009 Do Broadband subscribers totalled 232,796. Broadband penetration as a percentage of post paid lines equals 19.0%, up from 15.4% at 31 March 2009.

Total data revenue increased 7.1% to R9,969 million despite significant price reductions. Data connectivity services revenue increased 3.7% to R5,136 million. Leased line revenue increased 8.1% to R2,008 million and Internet access and related services revenue increased 12.9% to R1,721 million. Managed data network services revenue increased 15.9% to R1,033 million, which included an increase of 16.3% in satellite services revenue and a 15.9% increase in VPN services revenue. This was mainly driven by a 10.8% increase in the number of managed data network sites to 33,226.

Telkom is aggressively promoting its broadband packages through focusing our marketing efforts on particular customer groupings and the up-selling of the higher end broadband packages which offer substantial value. We have also put in maximum effort to promote entry-level ADSL packages with competitive pricing. We continue to make every effort to increase the bandwidth available to our customers and are currently negotiating a triple play partnership in order to provide our customers with enhanced content. Speeds of up to 10 mbps, up from 4 mbps available in September 2009, have been installed in selected exchanges. We have signed agreements with two partners for our gated community initiative, the benefits of which we expect to start showing in the 2010/11 financial year. These gated communities that fall within these coverage areas will receive the full benefit of this new enhanced 10Mbps ADSL service.
Telkom is facing competition on price for traditional data services. We continue to maximise the benefit of our capacity and ability to provide quality and security. We are also offering innovative products and services using the intelligence of our next generation network. The scope

and quality of our data services are unmatched. In addition, the scale of our global undersea cable system provides additional competitiveness.

We are focusing on differentiating our service through creating attractive, value propositions. Our differentiators include the reliability of our comprehensive service level agreements that are flexible and can be designed to match customer requirements. Other differentiators that we are working towards include: providing full communication and converged solutions, including mobility and data centre services that offer value and are clean and simple to understand.

Cost management

In order to do so we developed an end state vision. The end state incorporates a sustainable model to serve customers effectively through our access line strategy, optimising the product portfolio and sales channel usage. We also investigated ways to extract non-labour efficiencies. We have examined ways of working more efficiently to improve the quality of the customer experience through, for example, specific interventions to improve the effectiveness of our field force and contact centres. We looked at ways of improving the efficiency of marginal businesses such as payphones and directory services that we are required to provide as part of our licence obligations. All elements of our operating model – network and IT, marketing, channel and customer, corporate services – were reviewed from a revenue, operating expenditure and capital expenditure perspective to inform the design of our end state. We also referred to the business model of other leading telecommunications operators for benchmarking purposes.

The business units within Telkom South Africa have identified the specific cost saving opportunities which have now been incorporated into the budgets and five year plan of each specific business unit.

We have continued optimising vacancies created through natural attrition and have been actively managing overtime and contractors spend in order to manage costs as far as possible. We have also launched voluntary separation packages for management.

As we restructured the company and pulled back on the capital expenditure programme during the twelve months under review, we could not immediately reduce staffing and contractor levels and therefore expensed certain labour costs which would otherwise have been capitalised. During the period our expenditure also increased as a direct result of our restructuring and the start up of our mobile business.

Telkom SA has actively managed services rendered and operating leases by introducing efficiencies in all possible areas to ensure that the inflationary cost impact could be fully offset (specific focus on consultants, fleet costs, commissions and distribution costs).

Write downs and provisions were required as a result of technologically obsolete inventory and items classified as slow moving inventory as a result of the economic slowdown. In addition, a contributing factor was that high value inventory orders had already been placed in order to service the previously higher capital expenditure programme. A decision was made to provide against these inventory items as the capital cost of completing the projects for which these items were ordered would not render the required return on investment.

FIFA World Cup 2010

Telkom has been preparing for the FIFA World Cup 2010 for the last three years and has laid enough fibre optic cable to go around the world three times. We have provided 40 Gbps bandwidth capacity to each stadium to enable the broadcast of high definition television to the globe. We have also installed dual optic fibre routes to ensure redundancy with no single point of failure from the stadiums to the international broadcast centre. The network has also been equipped with a self healing capability.

To date, Telkom has delivered 100% on broadcast of all the soccer matches and has had no single point of failure throughout the network and FIFA's data hosting requirements.

Telkom Mobile

Telkom is at an inflection point with growth in traditional fixed-line voice revenues declining. The majority of global fixed-line incumbents have discovered that a successful operation requires an integrated mobile business. We believe that there is a market opportunity in South Africa as mobile voice and especially mobile data are still experiencing growth. Telkom has a competitive advantage by virtue of its existing business and customer base. This is particularly so as wireless growth slows and converged data becomes more prevalent. A product range spanning both mobile and fixed value pools will assist Telkom to defend itself more effectively against competitors and to grow revenues. The mobile business is designed to also assist Telkom in addressing fixed-line cost challenges and to position Telkom more competitively in the market. To this end Telkom will undertake best endeavours to attain the market share required to achieve its required IRR.

Telkom plans to enter the mobile market with Simplicity, Quality and Value as its three main guiding principles. Telkom believes that these principles will create differentiated product and service offerings in the South African mobile market.

As alluded to above, Telkom also plans to use mobile technology to offer fixed-line services in areas where Telkom is experiencing operational challenges such as copper theft, breakages, slow copper roll-out to new greenfield areas, etc. This will assist the company in being more responsive to its customers' needs.

In order to have a compelling product offering at launch, Telkom has signed a national roaming agreement with MTN to offer our customers peace of mind in using the services being provided by Telkom. The agreement covers services such as Voice, 2G and 3G data, SMS, MMS and USSD on a national basis. In addition, Telkom will also offer a full international roaming service at launch through another established and experienced international service provider.

To take these services to market, Telkom is required to negotiate mobile interconnect agreements with other mobile and fixed operators. These negotiations are at an advanced stage.

Telkom will initially offer the following mobile products and services to the market:

- Prepaid, postpaid and hybrid voice
- Prepaid, postpaid and hybrid data

These products will be provided by a unified 2G voice and data and 3G (including HSPA) voice and data network. Our turnkey suppliers for Information Technology and Networks are AMDOCS (for FAB Services) and Huawei (for Network and Billing support services).

The mobile network deployed is an IP Radio Access Network (RAN). This technology allows Telkom the flexibility to quickly deploy newer mobile technologies and dynamically change configurations on the mobile network. The technology used for the backhaul is IP over Ethernet or IP over TDM. A differentiating feature is the use of co-transmission of 2G and 3G traffic onto the same backhaul circuit and prioritisation of traffic. This allows maximum efficiency of the backhaul while providing the relevant prioritisation of mobile service flows. A further enhancement is the deployment of Software Definable Radios allowing significant flexibility in terms of how 2G, 3G and, in the future, 4G is rolled out within the network. These systems are useful in improving spectrum utilisation efficiency and are LTE ready ensuring that Telkom is able to match subscriber expectations well into the future. The RAN is also more power efficient and environmentally friendly using almost 30% less power than previous legacy systems.

The core network architecture deployed is also based on a full IP based network. Class leading assurance, subscriber management and service management components are being deployed to ensure enhanced quality of experience (QoE) for the end user to help deliver on our quality differentiation.

Telkom ordered 2,000 base stations which are in the process of being constructed in the first year. We plan to have 40% of our own population coverage at launch which will be grown as required over five years. Full national coverage will be provided through the roaming agreement with MTN.

We estimate that the capital expenditure required to implement mobility will be a maximum of R6 billion over five years. We are negotiating innovative financing structures with our suppliers in order to potentially reduce our capital investment in favour of operating lease-type payments which include technology renewal. We are also continuing to negotiate arrangements with distributors and retailers.

At the end of March 2010 we had 16,299 W-CDMA subscribers, an increase of 210.3% from 5,253 subscribers reported at March 2009, who were provided with mobile data services and fixed look-alike products in those areas hard hit by copper theft.

Cybernest – our data centre operations

Telkom’s new data centre operations business unit was launched in November 2009 under the separate brand name of Cybernest. This independent business unit has been set up to create a vibrant and fresh new identity for Telkom’s IT arm, as well as give it the autonomy and agility to compete in the open market. The launch coincided with the opening of the new advanced 1,600m2 data centre facility in Bellville, Cape Town, taking Cybernest’s total data centre capacity to the largest in Sub-Saharan Africa, being 9,700m2. The opening of the Bellville Data Centre was well received by the IT industry including it being nominated by international communications giant Cisco Systems as being the Most Innovative Data Centre Project of the year for numerous design considerations, including our “green”

approach to power consumption. The Bellville Data Centre has been recognised as a unique industry leading facility in South Africa, for its eco friendly design which assists in reducing carbon emissions in terms of power and cooling.

The transfer of certain IT staff from Telkom has been concluded to add critical mass and experience to Cybernest, and the formation of a dedicated focused Sales and Marketing organisation to take it to market has begun. Key seasoned industry appointments have been made in strategic sales management positions of the business and this has strengthened our level of experience and industry competitiveness. We have been able to grow the pipeline significantly and have notched up some notable wins by leveraging off our client base that uses us for their data network.

Key partnerships with various industry leaders, such as EMC for storage, Cisco for data centre technology and VMware for virtualisation have been established, in order to enhance our ability to deliver solutions that tailor fit customer requirements in the most effective, efficient and reliable way possible. A new shared virtual hosting offering has been launched with early client success, as the trend towards Cloud Computing gains momentum.

Telkom International

Multi-Links

The Nigerian Multi-Links operation remains a major challenge. Interconnection revenue increased by 315.3% to 14,127 million Naira due to the introduction of International Carrier Services which introduced traffic hubbing and card sales during the year. The newly established business contributed 10,548 million Naira to the interconnection revenue increase.

Active voice subscribers increased 18.7% to 2,210,925 from 1,863,131 recorded at 31 March 2009. Voice ARPU has decreased to USD6 from USD12 at 31 March 2009 (excluding non-revenue generating subscribers).

Multi-Links increased its focus on data services resulting in revenues increasing 81.8% to 3,135 million Naira due to an increase in equivalent 2 megabit circuits, transmission link services and the expansion of mobile broadband (EVDO) services.

Data subscribers (EVDO subscribers) increased significantly to 45,340 from 2,699 at 31 March 2010 and are generating USD20 ARPUs. EVDO revenues are now exceeding narrowband data revenues. Fixed data customers increased 55.7% to 570 for equivalent 2 megabit circuits.

The Nigerian operations reported EBITDA losses of R659 million, a 191.6% increase from the loss of R226 million reported at 31 March 2009. Trading conditions in Nigeria remained tough as a result of local economic factors, pricing pressures and the short term strategy previously in place to reduce inventories and acquire subscribers by subsidising certain handsets. Provisions were made against certain handset models with the intention of liquidating these items. The total charge to the income statement for the year ended 31 March 2010 amounted to 4.8 billion Naira. The EBITDA margin decreased to a negative margin of 34.9% from a negative margin of 11.9% recorded at 31 March 2009. Key issues were identified that hampered Multi-Links’s customer acquisition drive, the most significant of which was the management of the dealers. As part of an investment in

improving the distribution system, a new dealer structure was put in place early in the financial year with the appointment of a single super-dealer.

In addition to the above, the management team is also reviewing existing contracts to improve margins and achieve strategic flexibility. Various contracts that were previously entered into, accounting for a significant component of total operating expenditure are being renegotiated for better terms and conditions. These range from distribution, network sites, network maintenance, expatriate costs and IT operations. The renegotiations have to date yielded some savings and are ongoing.

Mr Jeffery Hedberg commenced his duties as the Chief Executive Officer of Multi-Links on 1 November 2009. Mr Hedberg is a turnaround specialist and has contributed significantly to the analysis of the strategic, operational and financial challenges faced by Multi-Links and has implemented programmes to improve the performance of the company in all three realms.

During the 2009/10 financial year, the Multi-Links's build and expansion programme achieved the following:
- Deployed additional packet based mobile switching centres increasing the available capacity from 2,800,000 to 4,000,000 subscribers.
- Rolled out additional 373 base transceiver stations to 878, increasing total radio capacity (Rf) from 1,800,000 to 3,100,000 subscribers on 706 tower sites, 340 of which are Multi-Links owned and the remaining are collocated.
- Successfully launched its broadband service offering by rolling out an EVDO 3G network to a capacity of 199,000 subscribers.
- Added 2,962 kms of optic fibre (1,822 MLTL owned and 1,140 swop) resulting in a total to 6,673 kms (4,639 Multi-Links owned and 2,034 swop).
- Successfully completed the rollout of the DWDM transmission network to 39 cities. The implementation of the DWDM network provides additional 4 x STM64 capacity in protected rings.
- Successfully launched four new Customer Service Branches to support the network growth.
- Increased international capacity by the addition of 2 x 155Mb services on the SAT-3 submarine cable system; and
- Extended coverage to 22 states.

It has been necessary to continue investing in the Multi-Links network and operations in order to complete capital projects and ensure that the asset is properly structured for future viability.
The balance sheet of Multi-Links was over-geared and undercapitalised. Accordingly, Multi-Links was recapitalised with preference share capital in order to enable the company to repay existing debt and negotiate third party financing.

Africa Online and MWEB Africa
The integration of Africa Online and MWEB Africa is expected to be complete by end September 2010 and is to be rebranded iWay Africa. Taking a consolidated view on the two companies at 31 March 2010, the new company, iWay Africa, had 35,384 subscribers and 562 employees (before any restructuring due to synergies between the two companies). The goal of the integration is to drive the ISP business in Africa up the ICT value chain

by developing Pan African major city-to-city backbone infrastructure as well as Sub-Saharan hub-to-international cable access infrastructure.

Telkom Management Services

Telkom Management Services (TMS) was created to provide consultancy services to telecommunications operators in Africa in order to improve their performance by providing network, IT, vendor and funding strategies, hands-on management and technical expertise best suited to meet their challenges.

TMS is currently exploring opportunities in Malawi, Zimbabwe, the Democratic Republic of Congo, Liberia, Angola, Ghana, Uganda, Botswana, Namibia, Lesotho and Swaziland. Services offered range from training services to human capital solutions, networks, systems, data services planning and landing station management to name a few.

The major obstacle to ramping this business up is securing funding on behalf of operators in Africa. We are currently working on innovative solutions with a number of financial institutions.

Guidance

Capital expenditure for the Group is expected to range between 20% and 25% of revenue over the next financial year including the impact of our mobile investment.

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

New York Stock Exchange delisting

Effective 27 August 2009 Telkom delisted from the New York Stock Exchange as maintaining a listing in the United States is expensive and takes considerable management time. The methodology employed and discipline gained from compliance with the Sarbanes-Oxley reporting requirements are retained, where appropriate, to ensure strict corporate governance compliance and transparent financial reporting.

We maintain a level 1 American Depositary Receipt programme to facilitate over-the-counter trading in the United States of America.

Investor road show

As a result of the FIFA World Cup and competitive sensitivities, Telkom will be delaying the investor road show until the latter half of September 2010 in order to be able to provide investors with further detail regarding our Mobile business plans and Multi-Links developments.

4. FINANCIAL PERFORMANCE

The Telkom Group believes that normalised earnings more accurately reflect the Group’s operational performance. The statement of comprehensive income is adjusted to exclude the effects of the sale and unbundling of our 50% share in Vodacom, the profit on sale of Telkom Media, the impairment of the goodwill and assets of Multi-Links, and the impact of the FIFA contract entered into with the Department of Communications. Unless otherwise indicated, the discussion below is based on normalised results, excluding the items below, and is based on continuing operations.

The statement of comprehensive income for the year ended 31 March 2009 has been adjusted to remove the effects of elimination of our 50% share in Vodacom, the Vodacom transaction expense, impairments and the gain on the revaluation of the Multi-Links put option to enable year on year comparison.

The impact of the items discussed above on group earnings as reported is as follows:

Yeor on yeor reconciliation of normalised group statement of comprehensive income

Continuing operations In ZAR millions	Reported March 2009	Effects of Vodacom transaction	Other unusual items	Normalised March 2009
Operating revenue	36,027	876[1]	(119)[5]	36,784
Other income	351			351
Operating expenses	29,619	1,354	(753)	30,220
Employee expenses	8,015	–		8,015
Payments to other operators	6,937	1,493[2]		8,430
Selling, general and administrative expenses	5,794	29[2]	(119)[5]	5,704
Service fees	2,756	(177)[3]		2,579
Operating leases	824	9[2]		833
Depreciation, amortisation, impairment and write-offs	5,293		(634)[6]	4,659
Results from operating activities	6,759	(478)	634	6,915
Investment income	183	–		183
Gain on distribution of asset	–	–		–
Finance charges and fair value movements	2,843	–	(409)	2,434
Interest	1,732	–		1,732
Foreign exchange and fair value movement loss	1,111		(409)[7]	702
Profit before taxation	4,099	(478)	1,043	4,664
Taxation	1,765	421[4]	33[8]	2,219
Profit from continuing operations	2,334	(899)	1,010	2,445

EBITDA			11,574
EBITDA margin (%)			31.5
Basic earnings per share – continuing operations	461.0		483.1
Headline earnings per share – continuing operations	610.5		532.7
Rand/Naira exchange rate			
Closing rate at beginning of the year			N14.39
Closing rate at end of the year			N15.56
Year average rate (Source: Reuters)			N14.39

Continuing operations In ZAR millions	Reported March 2010	Effects of Vodacom transaction	Other unusual items	Normalised March 2010	Variance
Operating revenue	37,427	–	(398)[13]	37,029	0.7
Other income	19,005	(18,535)[9]	(68)[14]	402	14.5
Operating expenses	39,294	(951)	(5,597)	32,746	8.4
Employee expenses	9,876	(951)[10]		8,925	11.4
Payments to other operators	8,386	–		8,386	(0.5)
Selling, general and administrative expenses	7,000	–	(357)[13]	6,643	16.5
Service fees	2,702	–		2,702	4.8
Operating leases	966	–		966	16.0
Depreciation, amortisation, impairment and write-offs	10,364		(5,240)[15]	5,124	10.0
Results from operating activities	17,138	(17,584)	5,131	4,685	(32.2)
Investment income	508	–		508	177.6
Gain on distribution of asset	25,688	(25,688)		–	–
Finance charges and fair value	1,370	(15)	–	1,355	(44.3)

movements					
Interest	1,313	-		1,313	(24.2)
Foreign exchange and fair value movement loss	57	(15)[11]		42	(94.0)
Profit before taxation	41,964	(43,257)	5,131	3,838	(17.7)
Taxation	4,485	(2,751)[12]	(168)[16]	1,566	(29.4)
Profit from continuing operations	37,479	(40,506)	5,299	2,272	(7.1)
EBITDA				9,809	(15.2)
EBITDA margin (%)				26.5	(15.9)
Basic earnings per share - continuing operations	7,404.7			425.2	(12.0)
Headline earnings per share - continuing operations	46.8			473.0	(11.2)
Rand/Naira exchange rate					
Closing rate at beginning of the year				N15.56	8.1
Closing rate at end of the year				N20.58	32.3
Year average rate (Source: Reuters)				N19.34	34.4

(1) Inter-company elimination of revenue received from Vodacom.
(2) Inter-company elimination of payments made to Vodacom.
(3) Vodacom transaction expenses.
(4) Deferred tax asset raised on disposal of Vodacom.
(5) Revenue and expenses recognised on the FIFA contract.
(6) Includes R462 million impairment of Multi-Links goodwill, R39 million impairment of the Africa Online investment and R133 million amortisation of the FIFA intangible asset.
(7) Fair value loss on the revaluation of the Multi-Links put option.
(8) Deferred tax asset raised on the decision to dispose of Swiftnet.
(9) Profit on disposal of our 15% share of Vodacom.
(10) Compensation expense recognised in terms of IFRS2 relating to the amendment of the Telkom Conditional Share Plan.
(11) Fair value loss on the Vodacom shares held.
(12) Includes R1,353 million capital gains taxation on the sale of Vodacom, R977 secondary taxation on companies on the R19 special dividend and R421 million reversal of the deferred tax asset raised.
(13) Revenue and expenses recognised on the FIFA contract.
(14) Profit on sale of Telkom Media.
(15) Includes R2,148 million impairment of Multi-Links goodwill, R3,012 million impairment of Multi-Links assets and R80 million impairment of the FIFA intangible asset.

(16) Includes R135 million secondary taxation on companies on the R2.60 special dividend paid and R33 million reversal of the Swiftnet deferred tax asset raised.

GROUP OPERATING REVENUE

In ZAR millions	Year ended 31 March 2009	2010	%
Telkom South Africa	33,523	33,487	(0.1)
Multi-Links	1,900	1,887	(0.7)
Other International	194	465	139.7
MWEB Africa	-	311	-
Africa Online	194	154	(20.6)
Other South African	1,204	1,316	9.3
Trudon	1,020	1,114	9.2
Swiftnet	99	111	12.1
Corporate centre	85	91	7.1
Eliminations	(37)	(126)	240.5
Total	36,784	37,029	0.7

Group operating revenue increased by 0.7% to R37,029 million (2009: R36,784 million) in the year ended 31 March 2010. The increase is mainly due to the inclusion of eleven months' revenue of our newly acquired MWEB Africa subsidiary and higher revenue from our Trudon subsidiary.

The relative strength of our reporting currency against the Nigerian Naira has adversely affected the Rand revenue growth of the Nigerian operations at a Telkom group level.

Telkom South Africa operating revenue

In ZAR millions	Year ended 31 March 2009	2010	%
Subscriptions and connections	6,614	6,814	3.0
Traffic	15,323	13,893	(9.3)
Local	3,634	3,205	(11.8)
Long distance	2,036	1,805	(11.3)
Fixed-to-mobile	7,409	6,452	(12.9)
Fixed-to-fixed	11	37	236.4
International outgoing	933	910	(2.5)
Subscription based calling plans	1,300	1,484	14.2
Interconnection	2,084	2,608	25.1
Mobile	916	1,043	13.9
Fixed	111	228	105.4
International	1,057	1,337	26.5
Data	9,310	9,969	7.1
Leased lines and other	7,452	7,961	6.8
Mobile leased facilities	1,858	2,008	8.1
Other	192	203	5.7
Total	33,523	33,487	(0.1)

Operating revenue from the Telkom South Africa segment decreased by 0.1% to R33,487 million (2009: R33,523 million) primarily due to lower traffic revenue as a result of lower volumes, partially offset by growth in data revenues, higher interconnection revenue and increased revenue from subscriptions and connections and subscription based calling plans.

Subscription and connections revenue grew by 3.0% to R6,814 million (2009: R6,614 million) largely as a result of higher equipment sales and rental and increased line rental tariffs on postpaid lines.

Traffic revenue decreased by 9.3% as a result of lower fixed-to-mobile volumes due to the increasing substitution of calls placed using mobile services rather than fixed-line services, and lower local and long distance volumes. This was partially offset by an increase in revenue from subscription based calling plans by 14.2% to R1,484 million primarily due to increased volumes as a result of a 21.1% increase in the number of subscribers to 715,221 (2009: 590,590).

Interconnection revenue increased by 25.1% to R2,608 million (2009: R2,084 million) largely as a result of an increase of 26.5% in international interconnection revenue, a 13.9% increase in mobile interconnection revenue and a significant increase in domestic fixed-line interconnection revenue. The increased interconnection revenue from international operators is mainly a result of higher volumes on switched hubbing due to increased volumes as a result of an agreement signed with an operator in the United States to transit traffic mostly to African destinations. The increase in mobile interconnection revenue was driven by price and volume increases on international traffic. Fixed interconnection revenue increased mainly due to increased volumes by VANS.

Data revenue increased by 7.1% to R9,969 million (2009: R9,310 million) mainly due to an increase in internet access and related services, higher revenue from mobile leased lines and a growing demand for data services, including ADSL and growth in managed data network services.

Multi-Links operating revenue

	Year ended 31 March		
In Naira millions	2009	2010	%
Subscriptions and connections	4,508	2,932	(35.0)
Traffic	17,427	16,353	(6.2)
Interconnection	3,402	14,127	315.3
Data	1,724	3,135	81.8
Total	27,061	36,547	35.1

Multi-Links Operating Revenue increased by 35.1% to 36,547 million Naira from March 2009. Traffic revenue decreased 6.2% mainly due to a decrease in traffic volumes during the year.

Subscriptions and connections revenue decreased 35.0% due to a decrease in customer premises equipment sales revenue as a result of the introduction of calling plans which did not include access fees and the downward pressures on the selling price of customer premises equipment in the market.

Interconnection revenue increased significantly due to a new line of business, namely International Carrier Services, which introduced traffic hubbing and card sales during the year. This new business contributed 10,548 million Naira to the increase.

Multi-Links' increased focus on data services resulted in a significant increase in data revenue mainly due to an increase in equivalent 2 megabit circuits services and the expansion of mobile broadband (EVDO) services.

GROUP OTHER INCOME

In ZAR millions	Year ended 31 March 2009	2010	%
Telkom South Africa	278	314	12.9
Multi-Links	-	13	-
Other International	3	95	-
MWEB Africa	-	11	-
Africa Online	3	7	133.3
Telkom International	-	58	-
Telkom Management Services	-	19	-
Other South African	332	406	22.3
Trudon	61	55	(9.8)
Swiftnet	8	6	(25.0)
Corporate centre	263	345	31.2
Eliminations	(262)	(426)	62.6
Total	351	402	14.5

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets as well as interest received on loans to subsidiaries.

GROUP OPERATING EXPENSES

In ZAR millions	Year ended 31 March 2009	2010	%
Employee expenses	8,015	8,925	11.4
Payments to other operators	8,430	8,386	(0.5)
Selling, general and administrative expenses	5,704	6,643	16.5
Service fees	2,579	2,702	4.8
Operating leases	833	966	16.0
Depreciation, amortisation, impairments and write-offs	4,659	5,124	10.0
Total	30,220	32,746	8.4

Group operating expenses increased by 8.4% to R32,746 million (2009: R30,220 million) in the year ended 31 March 2010, primarily due to an increase in employee expenses, selling, general and administrative expenses, and depreciation. The increase in employee expenses is due to the increase in salaries and wages in Telkom South Africa. Higher selling, general and administrative expenses are mainly attributable to Telkom South Africa and Multi-Links. Operating leases increased mainly as a result of Multi-Links’s increased utilisation of leased cell sites. Depreciation increased as a result of higher investment in telecommunications network and data processing equipment in Telkom South Africa in recent years.

Group operating expenses per segment

In ZAR millions	Year ended 31 March 2009	2010	%
Telkom South Africa	24,434	26,077	6.7
Multi-Links	2,422	2,939	21.3
Other International	324	846	161.1
MWEB Africa	-	326	-
Africa Online	208	184	(11.5)
Telkom International	116	322	177.6
Telkom Management Services	-	14	-

Other South African	3,278	3,105	(5.3)
Trudon	593	644	8.6
Swiftnet	100	111	11.0
Corporate centre	2,585	2,350	(9.1)
Eliminations	(238)	(221)	(7.1)
Total	30,220	32,746	8.4

The increase in group operating expenses was driven by an increase in the operating expenses of Telkom South Africa and Multi-Links as well as the inclusion of eleven months' operating expenses of our newly acquired MWEB Africa subsidiary.

Telkom South Africa operating expenditure

	Year ended 31 March		
In ZAR millions	2009	2010	%
Employee expenses	6,482	7,327	13.0
Salaries and wages	5,148	5,804	12.7
Benefits	2,070	2,077	0.3
Employee related expenses capitalised	(736)	(554)	(24.7)
Payments to other network operators	7,536	7,443	(1.2)
Payment to mobile operators	5,432	4,847	(10.8)
Payment to international operators	1,853	2,323	25.4
Payment to fixed-line operators	251	273	8.8
Selling, general and administrative expenses	3,624	3,996	10.3
Materials and maintenance	2,186	2,388	9.2
Marketing	257	282	9.7
Bad debts	240	357	48.8
Other	941	969	3.0
Service fees	2,227	2,262	1.6
Property management	1,191	1,313	10.2
Consultants and security	1,036	949	(8.4)
Operating leases	671	645	(3.9)
Depreciation, amortisation, impairment and write-offs	3,894	4,404	13.1
Depreciation	3,255	3,587	10.2
Amortisation	484	559	15.5
Impairments and write-offs	155	258	66.5
Total	24,434	26,077	6.7

Telkom South Africa's operating expenses increased by 6.7% in the year ended 31 March 2010, to R26,077 million (2009: R24,434 million), primarily due to increased employee expenses, selling, general and administrative expenses and higher depreciation, amortisation, impairment and write-offs.

Employee expenses increased by 13.0% in the year ended 31 March 2010, primarily due to higher salaries and wages as a result of average annual salary increases of 7.5% as agreed with the unions as well as the one time adjustment to accelerate the elimination of disparities translating to an 11.2% average increase for the bargaining unit. During the 2010 financial year medical aid contributions were reclassified from benefits to salaries and wages.

Payments to other network operators decreased by 1.2% as a result of lower payments to mobile operators, partially offset by increased payments to international and fixed-line operators. Payments to mobile operators

decreased by 10.8%, largely due to an 11.4% decrease in fixed-to-mobile traffic volumes and a 28.8% reduction in mobile termination rates with effect from 1 March 2010. Interconnection revenue decreased approximately R71 million for the month of March 2010 and payments to mobile operators decreased approximately R64 million for the month. Payments to international operators increased by 25.4% primarily due to higher volumes on switched hubbing.

Selling, general and administrative expenses increased by 10.3% primarily as a result of higher maintenance cost on new technologies, higher maintenance material cost, as well as write downs and increased provisions of technologically obsolete inventory and items classified as slow moving inventory as a result of the economic slowdown and higher bad debts. From 1 April 2009, ICASA changed the base of calculation of licence fees from 0.1% of revenue from PSTS and VANS to 1.5% of gross profit, which resulted in a R62 million increase in the provision for the year.

Service fees increased marginally due to higher property management fees as a result of electricity increases and increased maintenance of sites in preparation of the Soccer World Cup, partially offset by lower insurance cost as a result of a reduction in the number of incidents.

The 13.1% increase in the depreciation, amortisation, impairment and write-offs to R4,404 million (2009: R3,894 million) was mainly as a result of higher depreciation due to the higher levels of investment in telecommunications network equipment and data processing equipment in recent years.

MULTI-LINKS OPERATING EXPENSES (excluding impairment)

	Year ended 31 March		
In Naira millions	2009	2010	%
Employee expenses	1,888	2,298	21.7
Payments to other operators	9,369	16,240	73.3
Selling, general and administrative expenses	15,405	25,582	66.1
Service fees	459	363	(20.9)
Operating leases	2,757	5,258	90.7
Depreciation, amortisation, impairments and write-offs	4,233	7,451	76.0
Total	34,111	57,192	67.7

Employee expenses increased by 21.7% in the year ended 31 March 2010, primarily due to the recruitment of new staff to fill strategic positions in the period under review and the realignment and restructuring of salaries, partially offset by a lower number of employees. Multi-Links undertook a headcount rationalisation including outsourcing of non-core activities. This has seen the headcount being reduced from 1,124 to 767 at 31 March 2010, a 31.8% reduction. Additional rationalisation activities are still in progress.

Payments to other operators increased 73.3% mainly due to the introduction of International Carrier Services business which introduced traffic hubbing and card sales during the year. This contributed 10,363 million Naira to the increase.

Selling, general and administrative expenses increased 66.1% as a result of increased inventory write-offs and provisions, higher maintenance

costs, marketing and expatriate fees. Handset subsidies totalled 4,378 million Naira. Service fees decreased 20.9% mainly due to lower insurance cost and audit fees.

Operating leases increased significantly as a result of the increased utilisation of leased infrastructure as opposed to owned infrastructure, as well as increased maintenance costs as equipment comes out of warranty, specifically relating to cell sites.

Depreciation, amortisation, impairments and write-offs increased significantly in line with the expansion programme and network roll out.

EBITDA PER SEGMENT

	Year ended 31 March		
In ZAR millions	2009	2010	%
Telkom South Africa	13,261	12,128	(8.5)
EBITDA margin (%)	39.6	36.2	
Multi-Links	(226)	(659)	(191.6)
EBITDA margin (%)	(11.9)	(34.9)	
Other International	(103)	(219)	(112.6)
EBITDA margin (%)	(53.1)	(47.1)	
Other South African	(1,372)	(1,137)	(17.1)
EBITDA margin (%)	(114.0)	(86.4)	
Eliminations	14	(304)	-
Total	11,574	9,809	(15.2)

INVESTMENT INCOME

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 177.6% to R508 million (2009: R183 million), largely as a result of higher interest income on short-term deposits.

FINANCE CHARGES AND FAIR VALUE MOVEMENTS

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses on foreign currency denominated transactions and balances. Finance charges and fair value movements decreased by 44.3% to R1,355 million (2009: R2,434 million) in the year ended 31 March 2010, primarily due to a 24.2% decrease in interest expense to R1,313 million (2009: R1,732 million) mainly as a result of the 69.5% decrease in the Group’s net debt to R4,723 million (2009: R15,497 million) and lower interest rates. Net fair value and foreign exchange rate movements resulted in a loss of R42 million for the year ended 31 March 2010 (2009: R702 million). The decrease was mainly attributable to the recognition of exchange rate differences on the loan from Telkom to Multi-Links in other comprehensive income in the 2010 financial year, and the fair value gain on the mark to market valuation of investments held by our cell captive.

The balance sheet of Multi-Links was such that it was over-geared and unable to raise debt and creditor financing. Accordingly Multi-Links issued preference shares which were fully subscribed by Telkom. The proceeds on issue were used to repay part of the loans owing to Telkom to enable the company to negotiate third party financing.

From a Group perspective, Telkom’s loans to Multi-Links are accounted for as part of the Group’s net investment in a foreign operation. Exchange

rate differences are therefore recognised in other comprehensive income and reclassified from equity to profit and loss in the event of a disposal of the net investment.

TAXATION

Consolidated tax expense from continuing operations decreased by 29.4% to R1,566 million (2009: R2,219 million) mainly due to lower profitability. The consolidated effective tax rate for the year ended 31 March 2010 was 40.0% (2009: 49.0%). The lower consolidated tax rate is mainly due to lower secondary tax on companies paid in the 2010 financial year on a lower ordinary dividend (R1.15 declared in June 2009 vs R6.60 declared in June 2008).

PROFIT FROM DISCONTINUED OPERATIONS

	Year ended 31 March		
In ZAR millions	2009	2010	%
Vodacom	2,443	–	–
Telkom Media	(281)	106	137.7
Total	2,162	106	(95.1)

The profit from Telkom Media includes the reversal of an onerous lease liability recognised on 31 March 2009.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group’s financial position remains strong. Net debt, after financial assets and liabilities, from continuing operations decreased by 69.5% to R4,723 million (2009: R15,497 million) resulting in a net debt to EBITDA ratio of 0.5 times from 1.3 times at 31 March 2009. On 31 March 2010, the Group had cash balances of R3.8 billion (2009: R1.9 billion). The proceeds retained from the Vodacom transaction contributed to the improvement.

Telkom Company issued commercial paper bills with a nominal value of R2,265 million for the year ended 31 March 2010 and commercial paper bills with a nominal value of R7,824 million were repaid during the year. The Company also repaid term loans of R2,000 million and partly repaid the syndicated loan of R820 million during the year under review.

FREE CASH FLOW

The Group’s cash flow for the year includes R20.6 billion proceeds received on the sale of our 15% stake in Vodacom, taxation paid relating to the Vodacom transaction and special dividend of R2.5 billion. Dividends paid amounted to R11.2 billion which includes the R19.00 per share dividend relating to the Vodacom transaction and the special dividend of R2.60 per share. Excluding the effects of the above, the Group’s normalised free cash flow amounted to R5,507 million.

GROUP CAPITAL EXPENDITURE

Group capital expenditure, which includes spend on intangible assets, decreased by 44.2% to R5,377 million (2009: R9,629 million) and represents 14.5% of group revenue (2009: 26.2%).

	Year ended 31 March		
In ZAR millions	2009	2010	%
Telkom South Africa	6,586	4,170	(36.7)
Multi-Links	2,791	1,036	(62.9)
Other International	80	50	(37.5)
Africa Online	63	17	(73.0)

MWEB Africa	–	32	–
Telkom International	17	1	(94.1)
Other South African	172	121	(29.7)
Trudon	51	42	(17.6)
Swiftnet	34	22	(35.3)
Corporate centre	87	57	(34.5)
Total	9,629	5,377	(44.2)

The decrease in capital expenditure was driven by a decrease in the capital expenditure of Telkom South Africa and Multi-Links.

Telkom South Africa capital expenditure

	Year ended 31 March		
In ZAR millions	2009	2010	%
Baseline	3,327	2,366	(28.9)
Revenue generating	30	203	576.7
Network evolution	1,373	654	(52.4)
Sustainment	115	58	(49.6)
Effectiveness and efficiency	571	432	(24.3)
Support	729	440	(39.6)
Regulatory and other	441	17	(96.1)
Total	6,586	4,170	(36.7)

Telkom South Africa’s capital expenditure, which includes spending on intangible assets, decreased by 36.7% to R4,170 million (2009: R6,586 million) and represents 12.5% of Telkom South Africa’s revenue (2009: 19.6%).

Baseline capital expenditure of R2,366 million (2009: R3,327 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), 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 continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network contributed to the network evolution and sustainment capital expenditure.

The increase in revenue generating capital expenditure was as a result of the mobile business case. The decrease in expenditure on network evolution was mainly due to the deployment of automated restoration functionality for the National Transport Network and the provisioning of bandwidth for the FIFA World Cup and for future network growth requirements that occurred mostly in the 2009 financial year.

Telkom continues to focus on its operations support system investment with current emphasis on workforce management, provisioning and fulfilment, assurance and customer care, hardware technology upgrades on the enterprise networks and performance and service management and property optimisation. During the year ended 31 March 2010, R440 million (2009: R729 million) was spent on the implementation of several systems. Regulatory and other capital expenditure in the 2009 financial year includes R260 million intangible asset for the FIFA brand.

Audit opinion

The consolidated annual financial statements, from which these provisional condensed consolidated 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 2010

	Notes	Restated* 2009 Rm	2010 Rm
Continuing operations			
Total revenue	2	36,530	38,303
Operating revenue		36,027	37,427
Other income	15	351	19,005
Operating expenses		29,619	39,294
Employee expenses		8,015	9,876
Payments to other operators		6,937	8,386
Selling, general and administrative expenses		5,794	7,000
Service fees		2,756	2,702
Operating leases		824	966
Depreciation, amortisation, impairment and write-offs	3	5,293	10,364
Results from operating activities		6,759	17,138
Investment income		183	508
Gain on distribution of assets	15	–	25,688
Finance charges and fair value movements		2,843	1,370
Interest		1,732	1,313
Foreign exchange and fair value movement		1,111	57
Profit before taxation		4,099	41,964
Taxation	4	1,765	4,485
Profit from continuing operations		2,334	37,479
Profit from discontinued operation		2,162	106
Profit for the year		4,496	37,585
Other comprehensive income			
Exchange differences on translating foreign operations	5	30	(1,676)
Realised exchange differences on translating foreign operations	5	–	(193)
Available-for-sale investment	5	(8)	–
Defined benefit plan actuarial (losses)/gains	5	(1,824)	130
Defined benefit plan asset limitations	5	941	(597)
Income tax relating to components of other comprehensive income	5	244	463
Other comprehensive income for the year, net of taxation		(617)	(1,873)
Total comprehensive income		3,879	35,712
Profit attributable to:			
Owners of Telkom		4,419	37,458
Non-controlling interest		77	127
Profit for the year		4,496	37,585
Total comprehensive income			

attributable to:			
Owners of Telkom		3,804	35,585
Non-controlling interest		75	127
Total comprehensive income for the year		3,879	35,712
Total operations			
Basic earnings per share (cents)	6	882.6	7,425.7
Diluted earnings per share (cents)	6	868.5	7,425.7
Dividend per share (cents)	6	660.0	375.0
Continuing operations			
Basic earnings per share (cents)	6	461.0	7,404.7
Diluted earnings per share (cents)	6	453.6	7,404.7

* The amounts have been restated for the effect of the discontinued operation and disposal groups held for sale as well as the change in accounting policy for the defined benefit plan, refer to note 1.

Condensed consolidated provisional statement of financial position for the year ended 31 March 2010

	Notes	Restated 2008 Rm	Restated 2009 Rm	2010 Rm
ASSETS				
Non-current assets		57,763	51,002	44,518
Property, plant and equipment		46,815	41,254	37,938
Intangible assets		8,468	7,232	4,338
Investments		1,448	1,383	1,437
Deferred expenses		221	209	156
Other financial assets		-	2	341
Finance lease receivables		206	166	250
Deferred taxation		605	756	58
Current assets		12,609	11,287	12,301
Short-term investments		51	-	-
Inventories		1,287	1,974	1,274
Income tax receivable		9	91	2
Current portion of deferred expenses		362	48	48
Current portion of finance lease receivables		166	109	109
Trade and other receivables		8,986	5,934	5,981
Other financial assets		614	1,200	1,032
Cash and cash equivalents		1,134	1,931	3,855
Assets of disposal groups classified as held for sale		-	23,482	-
Total assets		70,372	85,771	56,819
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent		31,589	34,642	29,925
Share capital		5,208	5,208	5,208
Treasury shares		(1,638)	(1,517)	(1,171)
Share-based compensation reserve		643	1,076	2,060
Non-distributable reserves		1,292	1,758	620
Retained earnings		26,084	27,241	23,208
Reserves of disposal groups classified as held for sale		-	876	-
Non-controlling interests		522	853	339

Total equity		32,111	35,495	30,264
Non-current liabilities		16,330	16,970	14,204
Interest-bearing debt	9	9,403	10,653	7,925
Other financial liabilities		919	18	19
Provisions		3,382	4,098	4,355
Deferred revenue		1,128	997	1,068
Deferred taxation		1,498	1,204	837
Current liabilities		21,931	17,433	12,351
Trade and other payables		8,771	5,537	5,549
Shareholders for dividend		20	23	23
Current portion of interest-bearing debt	9	6,330	7,622	1,812
Current portion of provisions		2,181	2,150	2,556
Current portion of deferred revenue		2,593	1,714	2,051
Income tax payable		323	50	165
Other financial liabilities		371	210	133
Credit facilities utilised		1,342	127	62
Liabilities of disposal groups classified as held for sale		-	15,873	-
Total liabilities		38,261	50,276	26,555
Total equity and liabilities		70,372	85,771	56,819

Condensed consolidated provisional statement of changes in equity
for the year ended 31 March 2010

	Restated 2009 Rm	2010 Rm
Balance at 1 April	33,337	37,106
Attributable to equity owners of Telkom	32,815	36,253
Non-controlling interest	522	853
Change in accounting policy	(1,226)	(1,611)
Restated opening balance	32,111	35,495
Total comprehensive income for the year	3,879	35,712
Profit for the year	4,496	37,585
Other comprehensive income	(617)	(1,873)
Exchange differences on translating foreign operations	24	(1,345)
Exchange differences realised	-	(193)
Available-for-sale investment	(8)	-
Net defined benefit losses	(633)	(335)
Dividend declared	(3,339)	(41,737)
Increase in share-based compensation	554	1,330
Non-controlling interest put option	661	-
Disposal of non-controlling interest	-	(536)
Broad-based black economic empowerment transaction in Vodacom	962	-
Premium on acquisition of non-controlling interest	667	-
Balance at 31 March	35,495	30,264
Attributable to equity owners of Telkom	34,642	29,925
Non-controlling interest	853	339

Condensed consolidated provisional statement of cash flow
for the year ended 31 March 2010

	Restated 2009 Rm	2010 Rm
Cash flows from operating activities	11,432	(3,317)
Cash flows from investing activities	(17,005)	15,578
Cash flows from financing activities	7,093	(10,096)
Net increase in cash and cash equivalents	1,520	2,165
Net cash and cash equivalents at beginning of year*	(208)	1,780
Effect of foreign exchange rate differences	(30)	(152)
Net cash and cash equivalents at end of year	1,282	3,793
*Reconciliation of cash and cash equivalents at beginning of year		
Net cash and cash equivalent as previously reported	1,282	
Cash and cash equivalents in disposal groups	522	
Adjusted cash and cash equivalents at the beginning of the year	1,804	
Cash and cash equivalents in disposal groups	(24)	
Cash and cash equivalents	1,780	

Notes to the condensed consolidated provisional annual financial statements
for the year ended 31 March 2010

1. Basis of preparation and accounting policies

Basis of preparation

The condensed consolidated provisional annual financial statements have been prepared in accordance with IAS34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited and the South African Companies Act, 1973.

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

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 previous year.

The Group has:
- adopted IFRS8 and IAS1 which are applicable for annual periods beginning on or after 1 January 2009;
- adopted Circular 3/2009 applicable for financial periods ending on or after 31 August 2009;
- early adopted IFRS3, IAS27 and IFRIC17 which are applicable for annual periods beginning on or after 1 July 2009; and
- early adopted the amendments to IFRS5.

Change in accounting policy

As of 1 April 2009, the Group changed its accounting policy for post employee benefits by adopting the option available under IAS19 Employee Benefits, paragraph 93A. The standard allows actuarial gains and losses to be recorded directly in other comprehensive income in the period in which they occur. The Group believes that recognising actuarial gains and losses

in other comprehensive income results in better disclosure in the statement of financial position.

The impact of the change of accounting policy has been retrospectively applied in accordance with IAS8 Accounting Policies, Changes in Accounting Estimates and Errors. The financial quantification of this change is disclosed below.

	Balance as previously reported Rm	Adjustments Rm	Balance as restated Rm
31 March 2008			
Statement of Financial Position			
Equity			
Restated retained earnings	27,310	(1,226)	26,084
Non-current liabilities			
Provisions	1,675	1,707	3,382
Deferred tax liability	1,979	(481)	1,498
31 March 2009			
Statement of Comprehensive Income			
Employee costs	8,373	(358)	8,015
Taxation	1,656	109	1,765
Other comprehensive income			
Defined benefit plan acturial gains and losses	–	1,824	1,824
Asset limitation	–	(941)	(941)
Tax effect on defined benefit plan actuarial gains losses	–	(513)	(513)
Tax effect on asset limitation	–	263	263
Statement of Financial Position			
Non-current assets			
Deferred expenses	216	(7)	209
Equity			
Restated retained earnings	28,852	(1,611)	27,241
Non-current liabilities			
Provisions	1,875	2,223	4,098
Deferred tax liability	1,823	(619)	1,204

	Restated* 2009 Rm	2010 Rm
2. Revenue		
Total revenue	36,530	38,305
Operating revenue	36,027	37,427
Other income (excluding profit on disposal of property, plant and equipment, intangible assets and investments)	320	370
Investment income	183	508

* The 2009 amounts have been restated following a change in plans to sell Swiftnet.

3. Operating expenses		
Depreciation, amortisation, impairment and write-offs	5,293	10,364

Depreciation of property, plant and equipment	3,746	4,152
Amortisation of intangible assets	724	732
Impairment of property, plant and equipment and intangible assets	501	5,163
Write-offs of property, plant and equipment and intangible assets	322	317

The impairment charge for the 2010 financial year relates primarily to Multi-Links Limited, R5,160 million (2009: R462 million).

4. Taxation	1,765	4,485
South African normal company taxation	1,658	2,772
Deferred taxation	(59)	780
Secondary Taxation on Companies ("STC")	164	931
Foreign taxation	2	2

The increase in the deferred taxation expense is mainly due to realisation of the temporary difference associated with the disposal of the Vodacom investment as well as the STC on the dividends paid.

The STC expense was provided for at a rate of 10% on the amount by which dividends declared exceeded dividends received. Deferred tax expense relating to STC credits is provided for at a rate of 10%. The movement is with regard to the Vodacom transaction.

	2009 Rm	2010 Rm
5. Effects of other comprehensive income including tax effects relating to each component of other comprehensive income		
Exchange differences on translating foreign operations	30	(1,676)
Tax effect of exchange differences on translating foreign operations	(6)	331
Net foreign currency translation differences for foreign operations	24	(1,345)
Realised exchange differences on translating foreign operations	–	(193)
Tax effect of realised exchange differences on translating foreign operations	–	–
Net realised exchange differences on translating foreign operations	–	(193)
Available-for-sale investment	(8)	–
Tax effect of available-for-sale investment	–	–
Net available-for-sale investment	(8)	–
Defined benefit plan actuarial (losses)/gains	(1,824)	130
Tax effect of defined benefit plan actuarial (losses)/gains	513	(35)
Net defined benefit plan actuarial (losses)/gains	(1,311)	95
Defined benefit plan asset limitations	941	(597)
Tax effect of defined benefit plan asset limitations	(263)	167
Net defined benefit plan asset limitations	678	(430)
Other comprehensive income for the year before taxation	(861)	(2,336)
Tax effect of other comprehensive income for	244	463

the year		
Other comprehensive income for the year net of taxation	(617)	(1,873)

6. Earnings per share

Total operations		
Basic earnings per share (cents)	882.6	7,425.7
Diluted earnings per share (cents)	868.5	7,425.7
Headline earnings per share (cents)	1,044.3	67.8
Diluted headline earnings per share (cents)	1,027.7	67.8
Continuing operations		
Basic earnings per share (cents)	461.0	7,404.7
Diluted earnings per share (cents)	453.6	7,404.7
Headline earnings per share (cents)	610.5	46.8
Diluted headline earnings per share (cents)	600.8	46.8
Reconciliation of weighted average number of ordinary shares:		
Ordinary shares in issue	520,784,186	520,783,900
Weighted average number of shares bought back	(27)	–
Weighted average number of treasury shares	(20,083,621)	(16,346,068)
Weighted average number of shares outstanding	500,700,538	504,437,832
Reconciliation of diluted weighted average number of ordinary shares		
Weighted average number of shares outstanding	500,700,538	504,437,832
Expected future vesting of shares	8,082,103	–
Diluted weighted average number of shares outstanding	508,782,641	504,437,832
	Rm	Rm
Total operations		
Reconciliation between earnings and headline earnings:		
Earnings as reported	4,419	37,458
Profit on disposal of investments	–	(18,603)
Profit on disposal of property, plant and equipment and intangible assets	(25)	(32)
Impairment loss on property, plant and equipment and intangible assets	557	5,163
Write-offs of property, plant and equipment and intangible assets	322	317
Gain on distribution of non-cash asset	–	(25,688)
Tax effects	(44)	1,727
Headline earnings	5,229	342
Dividend per share (cents)	660.0	375.0

The calculation of dividend per share is based on dividends of R1,894 million (2009: R3,306 million) and 505,008,190 (2009: 500,941,029) number of ordinary shares outstanding on the date of dividend declaration. The reduction in the number of shares represents the number of treasury shares held on date of payment.

Vodacom dividend (cents)		7,750.0

The Vodacom dividend consists of a once-off cash dividend of 1,900.0 cents per share totalling R9,740 million and a 35% unbundling share valued at 5,850.0 cents per share with a total value of R29,990 million.

7. Net asset value per share (cents)	6,914.6	5,919.9

The calculation of net asset value per share is based on net assets of R29,925 million (2009: R34,642 million) and 505,496,644 (2009: 500,993,664) number of ordinary shares outstanding at year end.

8. Capital expenditure incurred		
Property, plant and equipment	8,740	4,964
Intangible assets (including business combinations)	2,215	910

	2009 Rm	2010 Rm
9. Interest-bearing debt		
Non-current interest-bearing debt	10,653	7,925
Local debt	9,114	6,859
Foreign debt	589	160
Finance leases	950	906
Current portion of interest-bearing debt	7,622	1,812
Local debt	7,546	1,711
Foreign debt	40	55
Finance leases	36	46

Repayments/refinancing of current portion of interest-bearing debt
During the current year Telkom issued Commercial Paper Bills with a nominal value of R2,265 million and fully repaid Commercial paper debt to the value of R7,824 million. Telkom also repaid term loans of R2,000 million and partly repaid the syndicated loan of R820 million during the reporting year.

The R1,841 million nominal value of current portion of interest-bearing debt as at 31 March 2010 is expected to be repaid/refinanced from available cash, operational cash flow and the issue of new debt instruments.

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

10. Acquisition of subsidiaries, joint ventures and non-controlling interests
Acquisitions
By the Group’s Subsidiaries
Acquisition of MWEB Africa Limited and majority equity stake in MWEB Namibia (Proprietary) Limited

Telkom International (Proprietary) Limited, a wholly-owned subsidiary of Telkom, acquired 100% of MWEB Africa Limited from Multichoice Africa Limited and 75% of MWEB Namibia (Proprietary) Limited from MIH Holdings Limited effective 21 April 2009 (collectively referred to as MWEB). Multichoice Africa Limited and MIH Holdings Limited are members of the Naspers Limited Group.

The acquisition of MWEB is part of the Group's strategy of growing its broadband business and solidifying its market position through acquisitions.

The goodwill on acquisition is partially attributable to the following:
- Certain licences that could not be valued separately from the MWEB group, but contribute significantly to goodwill as the MWEB business would cease to exist without the licence rights.
- The skills and technical talent of the acquired business's workforce, and the synergies expected to be achieved from integrating the acquiree into the Group's existing internet service provision.

The goodwill is also attributable to MWEB's position as Africa's largest satellite-based internet service provider.

Based on an independent valuation, MWEB does not have any significant contingent liabilities at acquisition date.

The only possible contingent liability,is the AFSAT bonus scheme which is reasonably quantified and included in the statement of financial position of MWEB at 31 March 2010.

The purchase price of USD55 million was determined as follows:
- USD1,5 million for the Namibian business
- USD53,5 million for the Mauritian business

The fair value of the assets and liabilities acquired were determined as follows:

Cash	83
Trade receivables	116
Inventories	18
Property, plant and equipment	40
Intangible assets	469
Less Deferred tax liabilities	(14)
Less Liabilities	(242)
Net asset value	470
Goodwill on acquisition	28
Purchase price for net asset fair value	498

Revenue of R311 million and a net loss of R19 million is included in the condensed consolidated provisional annual financial statements. The revenue and profit and loss for the financial year approximates the amount disclosed from acquisition date.

11. Commitments

Capital commitments authorised	7,928	7,270
Commitments against authorised capital expenditure	1,393	1,680

Authorised capital expenditure not yet contracted	6,535	5,590

Capital commitments comprise commitments for property, plant and equipment and software included in Intangible assets.

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

12. Contingencies

Supplier dispute

Supplier dispute liability included in current portion of provisions	664	565*

A net decrease in the provision is largely due to exchange rate movements
* USD77 million (2009: USD70 million)

There is a dispute between Telkom and Telcordia arising from the development and installation of an integrated end to end customer assurance and activation system, which was supposed to have been supplied by Telcordia.

The agreement was terminated in the 2001 financial year and the dispute was taken to arbitration where Telcordia was seeking approximately USD130 million plus interest at a rate of 15.5 percent per year for monies outstanding and damages.

A number of hearings took place during the 2008 and 2009 year without success.

Telkom requested a referral to the independent third party expert of the technical issues arising from the systems integration amendment. A hearing surrounding the technical issues was held during the period 3 – 21 November 2008, where the independent expert released his report and recommended that some aspects of Telcordia's claim be reduced.

The parties agreed to argue the issue of systems integration at an experts-only hearing before the independent expert, which commenced on 2 October 2009. The final evidentiary hearing regarding all outstanding issues and the recommendation of Mr Burns was held in Johannesburg in January 2010. The parties further attempted to settle the matter prior to closing arguments being heard by the arbitrator. Unfortunately the matter could not be settled. The arbitrator heard closing arguments on 13 and 14 April 2010.

The arbitrator's award was delivered on 11 June 2010. The arbitrator awarded an amount of USD30 million excluding interest, to Telcordia. The amount payable by Telkom in terms of the award, as at 13 June 2010, is USD82 million, which includes interest from March 2001. The question of liability for costs in the arbitration has not yet been decided by the arbitrator. It is expected that the question of liability for costs will be determined before the end of August 2010.

Competition Commission ('CC')

Telkom is party to a number of legal and arbitration proceedings filed by several parties with the South African Competition Commission alleging anti-competitive practices described below.

The South African Value Added Network Services ('SAVA')
On 7 May 2002, the South African Value Added Network Services Providers' Association, an association of VANS providers, filed complaints against Telkom at the CC under the South African Competition Act, alleging, among other things, that Telkom during 1999 - 2002 was abusing its dominant position in contravention of the Competition Act and that it was engaged in price discrimination.

Telkom brought an application for review against the CC and the Competition Tribunal ('CT') in the South African High Court, in respect of the decision by the CC to refer the matters to the CT. Telkom was of the view that the CT does not have jurisdiction to adjudicate these matters and argued that ICASA has the requisite jurisdiction.

The application for review was heard in April 2008. The High Court set aside the decision of the CC to refer the SAVA complaints and the Omnilink complaint against Telkom to the CT.

On 3 July 2008 the CC filed an application for leave to appeal the decision of the High Court on the basis that the Judge erred on the issue of bias as well as his finding that issues surrounding the extension of time to investigate the issues constitutes a ground for review.

Telkom filed an application for leave to cross-appeal in July 2008.

In November 2009, the Supreme Court of Appeal overturned the High Court's decision and held that Telkom's review application should be dismissed with costs. The matter proceeded before the CT and Telkom filed its opposing affidavit in April 2010,together with an application for condonation for the late filing of the papers. Telkom is awaiting the CC's replying affidavit.

Should the CT find that Telkom committed a prohibited practice as set out in the Competition Act, the CT may impose a maximum administrative penalty of 10 percent of Telkom's annual turnover in the Republic of South Africa (RSA) and its exports from the RSA 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. Telkom has not provided for this claim as no reliable estimate of liability can be made.

Omnilink
On 22 August 2002 Omnilink filed a complaint against Telkom at the CC alleging that Telkom was abusing its dominance by discriminating in its price for Diginet services as against those charged to VANS and the price charged to customers who apply for a Telkom VPN solution. The CC conducted an enquiry and subsequently referred the complaint, together with the SAVA complaint, to the CT for adjudication. This matter is currently being dealt with together with the SAVA matter discussed above.

Competition Commission referrals
The CC served a notice of motion on Telkom on 26 October 2009, in which it referred the complaints against Telkom by ISPA, MWEB and IS 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 (2002 – 2005):
– Telkom charged excessive prices to first tier ISPs for high bandwidth national leased lines (namely leased lines with bandwidth above 2 Mbps);
– Telkom charged excessive prices to first tier ISPs for international private leased circuits (IPLC's);
– Telkom set its prices for Diginet lines, high bandwidth leased lines and 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 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 certain of the contraventions above, an order directing Telkom to pay a penalty equal to 10 percent 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 in paragraph 1 above, by having the CT direct Telkom to provide the CC on an annual basis with such data and information as is necessary to enable the CC to assess whether Telkom is charging prices for the services mentioned in paragraph 1 above such that it prevents other ISPs from competing cost-effectively with Telkom. The form and nature of such data is to be agreed to between Telkom and the CC or, in the event that no agreement can be reached within two months of an order by the CT, in a form directed by the CT.

Telkom opposed the Multiple complaints referral and filed an exception application on 15 March 2010 in respect thereof. The CC has filed its answer to the exception application.

Telkom will only be able to complete its response to the merits of the multiple complaints referral once the exception application is disposed of.

Should the CT find that Telkom committed a prohibited practice as set out in the Competition Act, the CT may impose a maximum administrative penalty of 10 percent of Telkom's annual turnover in the RSA and its exports from RSA 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.

Maredi
Maredi served an application on Telkom, Ericsson SA and Telsaf Data (Proprietary) Limited on 8 January 2009. The matter relates to a tender published by Telkom for the supply of point to point split mount microwave equipment. Maredi, Telsaf, Ericsson and a fourth company, Mobax, were shortlisted. The tender was awarded by Telkom to Telsaf and Ericsson.

Maredi has also approached Telkom with a view to settling the litigation. Telkom sent a settlement proposal to Maredi for consideration subject to their acceptance thereof by a certain date. Maredi failed to respond to Telkom by a certain date. Telkom intends proceeding with the recovery of

its legal costs. The review application will proceed in the ordinary course.

Chorus Call (Proprietary) Limited ('Chorus Call')
Chorus Call filed a complaint at the CC on 26 May 2009, alleging that there is no difference in the prices Telkom Charges its customers for national or long distance peak calls, irrespective of the point of termination. For local peak calls, Telkom's minimum rate for calls on its network is R0.65 (including VAT) and R0.00653 (including VAT) per second. Rates for Telkom's peak local calls to a Neotel number are the same as the national rate. This pricing method results in Telkom calls to a Neotel number costing 66% more than a call terminating on Telkom's network. Telkom has not, as yet been provided with a full copy of the complaint.

The CC forwarded a questionnaire to Telkom on 16 March 2010 with numerous questions relating to this complaint and the complaint by ECN Telecommunications (Proprietary) Limited. Telkom submitted its responses to the questionnaire on 20 April 2010.

ECN Telecommunications (Proprietary) Limited ('ECN')
ECN filed a complaint at the CC on 16 October 2009. ECN alleged that Telkom is marking up calls made by its subscribers to ECN's network to such an extent that ECN is being prevented from competing in the fixed line call termination market. As a direct result of Telkom's dominant position, nearly 100% of the calls that originate on fixed lines are made by Telkom subscribers. This means that Telkom has the ability to off-set retail tariffs at a level that will prevent ECN's fixed lines from becoming a competitive alternative to Telkom's fixed lines. ECN regards Telkom's excessive pricing of calls to ECN as an abuse of its dominant position and a clear attempt to lessen competition in the market and as such being contrary to public interest.

Telkom has not as yet been provided with a full copy of the complaint.
Phuthuma Networks (Proprietary) Limited ('Phuthuma')
Phuthuma served a summons on Telkom on 20 August 2009, wherein it is claiming various amounts as damages. Phutuma's claim for damages arises from an allegation that Telkom had failed to adjudicate a tender, in accordance with a fair, transparent, competitive and cost-effective procurement policy.

The tender was published on 30 November 2007 for the outsourcing of Telkom's Telex and Gentex Services and for the provision of a solution to support the maritime industry requirements. The validity period was 180 days during which period Telkom was required to make an award. Telkom had cancelled the tender on 10 June 2009 without making any award, due to the expiry of the validity period. Phuthuma is claiming damages of R1,44 billion for loss of revenue, alternatively R3,8 billion for loss of revenue over a 12 year period, and further alternatively R496 million plus interest at 15.5 percent per annum from April 2008.

During November 2009, Phuthuma amended its summons by increasing the amount of damages alleged to have suffered by it as follows - The amount of R1,44 billion being loss of revenue was increased to R2,4 billion. The alternative claim for damages for loss of revenue over 12 years was increased to R4,2 billion. The further alternate claim for damages was increased to R490 million.

Telkom is defending the matter. The matter has been set down for trial in the North Gauteng High Court for 17 February 2011.

The Complaints and Compliance Committee at ICASA informed Telkom in February 2010 that Phuthuma also filed a complaint against Telkom at ICASA in respect of an alleged contravention of the Preferential Procurement Framework Act and the Broad Based Black Economic Empowerment Act. Phutuma has also filed a complaint against Telkom at the CC regarding a contravention of the Competition Act and the Johannesburg Stock Exchange.

Bihati Solutions (Proprietary) Limited ('Bihati')
The matter arises from a tender which was published on 8 November 2007 for the provision of network services. Telkom failed to make an award during the validity period of the tender. An award was made on 14 November 2008 after the validity period of the tender had expired. Telkom received challenges from the unsuccessful bidders regarding the validity of the award since it was made outside the validity period under the tender. Telkom was advised in March 2010 to apply to the High Court to review and set aside the aforesaid award.

On 7 May 2010, Bihati Solutions served an application on Telkom for the review and setting aside of a decision by the Telkom Board in March 2010 to apply to the high Court for the review and setting aside of its earlier decision to award a tender to Bihati and 5 other service providers. Telkom is opposing this application and has in the interim filed its own application to set aside the purported award of the tender to Bihati and 5 others.

13. Segment information
As at the beginning of the financial year the Group changed the reporting of its segment information to be in line with IFRS8 Segment Reporting. Previously the segments were fixed-line, mobile and other. The new reporting segments are business units that are separately managed.

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

The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria.

Other International segment provides internet services outside South Africa through Africa Online and MWEB Africa subsidiaries and management services through Telkom Management Services Company.

Other South African includes Trudon Group, Swiftnet and the Group's corporate centre.

Consolidated operating revenue	36,027	37,427
Telkom South Africa	33,642	33,885
Multi-Links	1,900	1,887
Other International	194	465
Other South African	1,204	1,316
Elimination	(913)	(126)
Consolidated operating profit	7,260	4,646
Telkom South Africa	9,234	7,685
Multi-Links	(522)	(1,039)
Other International	(127)	(286)

Other South African	(1,919)	(1,383)
Elimination	594	(331)
Reconciliation		
Consolidated operating profit	7,260	4,646
Gain on sale of investment	-	18,603
Compensation expense	-	(951)
Impairment of goodwill	(501)	(5,160)
Operating profit	6,759	17,138
Investment income	183	508
Gain on distribution of asset	-	25,688
Finance charges and fair value movement	(2,843)	(1,370)
Profit before taxation and discontinued operations	4,099	41,964

14. Related parties

Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:

With shareholders:		
Government		
Trade receivables	386	353
Revenue	(2,767)	(2,861)
With entities under common control:		
Major public entities		
Tade receivables	52	39
Trade payables	(3)	(8)
The outstanding balances are unsecured and will be settled in cash in the ordinary course of business.		
Revenue	(446)	(381)
Expenses	212	222
Rent received	(20)	(29)
Rent paid	19	22

15. Significant events

Change in Chairman

Mrs Shirley Lue Arnold retired as a non-executive director and Chairman of Telkom on conclusion of her three year contract on 1 November 2009.

Mr Jeff Molobela was appointed as a non-executive director (for a three year period) and as Chairman (for a one year period) with effect from 1 November 2009.

Change in directors

Mrs Keitumetse Seipelo Thandeka Matthews, a Government representative on the Telkom board of directors, retired as a non-executive director of Telkom with effect from 30 October 2009 and was replaced by Ms Julia Ntombikayise Hope as a Government representative on the Telkom board of directors and appointed as a non-executive director for a term of three years, commencing 1 November 2009.

Disposal of Vodacom Group (Proprietary) Limited

Telkom disposed of its interest in Vodacom by selling a 15% shareholding to Vodafone Group Plc ("Vodafone") and unbundling the remaining 35% to existing shareholders in Telkom.

The carrying amount of the net asset value at disposal date was R6,825 million. This resulted in a gain of R18,535 million being recognised in Other income.

The remaining 35% was distributed to the existing shareholders of Telkom and accounted for in terms of IFRIC17, Distribution of Non-Cash Assets to Owners. The fair value was calculated with reference to the Vodacom listing price at 18 May 2009. A gain on distribution was recognised in profit and loss R25,688 million.

16. Subsequent events

Dividends

The Telkom Board declared an ordinary dividend of 125 cents (2009: 115 cents) per share and a special dividend of 175 cents (2009: 260 cents) per share on 18 June 2010, payable on 19 July 2010 to shareholders registered on 16 July 2010.

Joint announcement of Telkom Board and GCEO

On 4 June 2010, the Group Chief Executive Mr Reuben September announced his retirement from his position and resignation of his directorship at the expiry of his contract in November 2010. Mr Reuben September served Telkom for more than 33 years and was Group Chief Executive Officer of Telkom from 1 November 2007.

Change in directors

Mr B Molefe has resigned as a non-executive director (Class B Shareholder representative) of the board of Telkom with effect from 20 April 2010, as a result of the end of his employment contract with the Public Investment Corporation Limited.

Mr D Barber resigned as a non-executive director of the board of Telkom with effect from 20 April 2010.

Mr Younaid Waja has been appointed as a non-executive director (Class B Shareholder representative) on the board of Telkom with effect from 20 April 2010. In terms of the company’s articles of association, the appointment of Mr Younaid Waja is made by the Public Investment Corporation Limited, Telkom’s Class B Shareholder.

Dr Ekwow Spio-Garbrah’s appointment as a non-executive director (Class A Shareholder representative) of the board of Telkom has been termination with effect from 1 May 2010.

Bihati Solutions (Proprietary) Limited (‘Bihati’)

The matter arises from a tender (RFP 0101/2007) which was published on 8 November 2007 for the provision of network services. Telkom failed to make an award during the validity period of the tender. An award was made on 14 November 2008 after the validity period of the tender had expired. Telkom received challenges from the unsuccessful bidders regarding the validity of the award since it was made outside the validity period under the tender. Telkom was advised in March 2010 to apply to the High Court to review and set aside the aforesaid award.

On 7 May 2010, Bihati Solutions served an application on Telkom for the review and setting aside of a decision by the Telkom Board in March 2010 to apply to the high Court for the review and setting aside of its earlier decision to award a tender to Bihati and 5 other service providers. Telkom is opposing this application and has in the interim filed its own application to set aside the purported award of the tender to Bihati and 5 others.

Voluntary severance packages

On 31 March 2010, the Board approved the offering of voluntary severance packages (VSP's) and voluntary early retirement packages (VERP's) to all management employees from 28 April until 2 July 2010. The programme was only communicated to employees post year-end.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2010 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.

www.telkom.co.za