Telkom SA Limited
(Registration Number 1991/005476/06)
ISIN ZAE000044897
JSE and NYSE Share Code TKG
("Telkom")

Telkom preliminary audited annual results for the year ended March, 31 2003

Commentary
Telkom, South Africas largest communications group announces preliminary audited annual results for the year ended March 31, 2003. Consolidated operating revenue increased by 10.0% to R37,600 million (US$4,759 million), operating profit increased 55.4% to R6,514 million (US$ 825 million) and basic earnings per share increased 33.5% to 292.6 cents (US$c 37.0) for the year ended March 31, 2003.

Group Financial Highlights

- Group operating margin increased from 12.3% to 17.3%
- Group EBITDA growth of 33.4% to R12,807 million
- Group EBITDA margin increased from 28.1% to 34.1%
- Group capital expenditure reduced 36.6% to R5,712 million
- Reduced net debt to equity ratio from 129.9% to 109.5%

Group Operational Highlights
In 2003 the group delivered a strong operational performance. The fixed-line business improved its competitive positioning with enhanced levels of service and innovative product offerings. Cost savings were achieved across the group and customer growth in the mobile business continued to be strong. The year under review saw the following key achievements:

- The listing of Telkom on the JSE Securities Exchange South Africa and the New York Stock Exchange on March 4, 2003
- Strong growth in mobile customers of 26.0% and 20.6% growth in ISDN channels
- Solid growth in fixed-line data revenue of 15.2%
- 15.4% growth in fixed-line prepaid customers
- The launch of ADSL in August 2002
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- The launch of ADSL in August 2002
- The launch of the intercontinental submarine cable, Afrolinque in May 2002

- The official launch of Vodacom Congo in the DRC in May 2002
- Telkom and Vodacom synergies framework
- The launch of the Telkom Agency for Career Opportunities, an innovative programme specifically focused on the responsible redeployment and re-skilling of redundant employees

Subsequent to year-end, Telkom successfully concluded a three-year agreement with all its unions effective April 1, 2003. The agreement provides for a 9% wage increase in the year ending March 31, 2004, an 8% in the year ending March 31, 2005 and a 7% in the year ending March 31, 2006. In addition, the increase in Telkoms contributions to medical aid schemes will be limited to wage increases.

During the year the Minister of Communications and ICASA made further progress in the liberalisation of the telecommunications sector. A process has commenced to issue an additional license to provide public switched telecommunications services to a second national operator. An evaluation committee appointed by the Minister of Communications has recommended that two of the four bidders for this license be prequalified. The Minister has indicated that she expects to grant this license in the second half of 2003. In May 2003, the Minister of Communications announced the fees that would be required to obtain the 1800MHz radio frequency spectrum. However, the licences have not yet been issued.

Financial Review

Telkoms strong group results in 2003 are supported by solid revenue growth, improvements in operational efficiencies, reduced capital expenditures and reduced interest expense on lowered outstanding debt. However, the results are impacted by two factors, namely: large non-core or one-off items in 2002 and 2003 and the fluctuations arising from measuring derivatives at fair value and due to the volatility of the exchange rate during the year.

Group operating profit before interest and taxation increased 55.4% to R6,514 million in 2003 and, excluding the following significant one-off or non-core items, group operating profit before interest and taxation increased 29.8% in 2003:

- Net profit on sale of investments, property, plant and equipment of R104 million (2002: R30 million)
- Asset write-offs of R189 million (2002: R445 million)
- Goodwill amortisation and impairment of R89 million (2002: R66 million)
- The provision for the supplier dispute with Telcordia, excluding interest, of R58 million (2002: R325 million)
- IPO expenditure of R213 million (2002: Nil)
- Reduction of the fixed-line bad debt provision of R276 million (2002: R153 million increase)

The group utilises derivative instruments to hedge its foreign currency denominated debt, floating interest rate exposure and foreign operational and capital expenditure. In terms of

IAS 39, Financial instruments: Recognition and Measurement the significant fluctuations in the currency resulted in a net fair value and foreign exchange loss of R1,285 million (2002: R635 million gain). The value of the Rand measured against the US Dollar increased 30.0% from R11.44 per $1.00 at March 31, 2002 to R8.01 at March 31, 2003. The value of Rand as measured against the US Dollar decreased 42.9% in the year ended March 31, 2002.

Group Operating Revenue
Operating revenue increased in both the fixed-line and mobile segments, resulting in an overall increase of 10.0% (2002: 9.1%) to R37,600 million (2002: R34,197 million). Fixed-line operating revenue, after inter-segmental eliminations, increased 5.8% (2002: 5.8%) primarily due to increased average tariffs and solid growth in data services. Mobile operating revenue, after inter segmental eliminations, increased 27.5% (2002: 25.5%) primarily due to customer growth.

Group Operating Expenses
Operating expenses increased 3.6% (2002: 13.8%) to R31,086 million (2002: R30,006 million) due to increased operating expenses in the mobile segment. These were partially offset by a 1.0% decrease (2002: 13.0% increase) in the fixed-line operating expenses primarily due to reduced selling, general and administrative expenses. The increase in mobile operating expenses of 23.4% (2002: 16.8%) was primarily due to increased competition resulting in increased incentive costs. Mobile payments to other operators also increased as a result of the increased outgoing traffic and the higher volume growth of outgoing traffic terminating on other mobile networks relative to traffic terminating on the fixed-line network.

Investment Income
Investment income consists of interest received on trade receivables, short- term investments and bank accounts. Investment income decreased 17.2% (2002: 8.2% decrease) to R424 million (2002: R512 million) largely as a result of the following factors: a more rapid collection of trade debtors; lower interest received due to lower average balances in investments and bank accounts and reduced interest on the receivable owing from the South African Revenue Services as they repaid R844 million on September 3, 2002 of their balance outstanding of R1,081 million at March 31, 2002.

Finance Charges
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. Finance charges increased 62.9% (2002: 18.7% decrease) to R4,154 million (2002: R2,550 million) due to a significant increase in group net fair value and exchange losses on financial instruments from a net gain of R635 million in 2002 to a net loss of R1 285 million in 2003, partially offset by a 9.9% decrease (2002: 23.8% increase) in interest expense to R2,869 million (2002: R3,185 million). The decrease in interest expense was primarily due to lower balances on foreign loans. The net fair value losses on financial instruments of R1,285 million was

primarily due to the fair value of derivative instruments for foreign loans and purchases of foreign goods and services.

Taxation

Consolidated tax expense increased 20.2% (2002: 22.1%) to R1,049 million (2002: R873 million). The consolidated effective tax rate was 37.7% in the 2003 financial year and 40.5% in the 2002 financial year. The high effective tax rate in the year ended March 31, 2002 was primarily due to non-deductible expenses at Telkom.

Net profit and earnings per share

Net profit increased 33.5% to R1,630 million in the year ended March 31, 2003 primarily due to increased operating profit in both the fixed-line and mobile segments. These increases were partially offset by increases in finance charges due to the net loss on the revaluation of derivative instruments. Group basic earnings per share increased 33.5% (2002: 24.7% decrease) to 292.6 cents (2002: 219.2 cents) and group headline earnings per share increased 4.9% (2002: 12.4% decrease) to 314.0 cents (2002: 299.3 cents).

Group capital expenditure

Group capital expenditure decreased 36.6% (2002: 8.9% decrease) to R5,712 million (2002: R9,004 million). Fixed-line capital expenditure decreased 42.4% to R4,013 million (2002: R6,962 million) and was 13.5% (2002: 24.9%) of fixed- line revenue. Fixed line capital expenditure was lower than the budgeted amount of R4,932 million as a result more stringent investment criteria for capital investment, savings resulting from the relative strength of the Rand against the US Dollar and Euro and projects carried forward to the 2004 financial year. The groups capital expenditure strategy has shifted to selective investment in the fixed-line segment on a smaller scale based on customer demand and economic viability. Capital investments will continue in growing business areas such as data services and in network evolution, business improvements and business operational support systems.

Despite African expansion, Cell C roaming investment, GPRS launch and the installation of 1800MHz equipment, mobile capital expenditure decreased 16.8% to R1,699 million (2002: R2,042 million) and was 17.2% (2002: 25.3%) of mobile revenue. Capital expenditure for the South African mobile operations was 13.4% (2002: 20.1%) of South African mobile revenue.

Consolidated capital expenditures in property, plant and equipment for the 2004 financial year is budgeted to be R6,429 million, of which approximately R4,977 million is budgeted to be spent in the fixed-line segment and R1,452 million in the mobile segment, which is the groups 50% share of Vodacoms total budgeted capital expenditure of R2,903 million. The increase in the fixed-line capital budget compared to the actual investment in 2003 is as a result of projects carried forward to the 2004 financial year and the increase in operational support systems investment as well as the provision for regulatory capital expenditure.

Group Cash Flow
Cash flows from operating activities increased 19.3% (2002: 32.5%) to R9,748 million (2002: R8,171 million) primarily due to increased operational cash flows, tax refunds and decreased interest expenses. Cash flows utilised in investing activities decreased 38.0% (2002: 7.2%) to R5,731 million (2002: R9,250 million) primarily due to the reduction in group capital expenditure. In the 2003 financial year, loans repaid and the increase in net financial assets exceeded loans raised by R2,872 million. The groups repayments in 2003 include a net repayment of R1,371 million of commercial paper bills, a repurchase of R689 million of the TL03 local bond, a repayment of the R359 million loan from European Investment Bank and the repayment of a R200 million 12.5% coupon unsecured loan. Vodacom repaid R1,379 million of its South Africa debt, Telkoms 50% share of R690 million is included in loans repaid. Vodacoms foreign debt increased R583 million as they utilised their extended credit facility for Vodacom Congo, and drew down on a project financing facility; Telkoms 50% share of R291 million is included in loans raised.

Funding sources
The group remains committed to the repayment of its debt and maintained its investment grade credit ratings with Moodys (Baa3) and Standard & Poors (BBB-). Net debt after financial assets and liabilities decreased 8.1% to R20,096 million (2002: R21,858 million). The balance sheet at March 31, 2003 strengthened, with a net debt to equity ratio of 109.5% from 129.9% at March 31, 2002. Total debt decreased 11.7% to R22,417 million (2002: R25,401 million).

As of March 31, 2003, 90.4% (2002: 86.2%) of the group debt was fixed rate debt and 9.6% (2002: 13.8%) was floating rate debt. In September 2003, a 10.75% unsecured local bond (TL03) with a weighted average yield to maturity of 10.9% matures. In May 2004 a 13% unsecured local bond (TL08) with a weighted average yield to maturity of 16.5% matures. The group intends to refinance its debt using operational free cash flows and new debt raised in the market.

Segment Commentary
The operating structure comprises two segments, fixed-line and mobile. The fixed-line segment provides fixed-line voice and data communications services through Telkom; directory services through our 64.9% owned subsidiary, Telkom Directory Services; and wireless data services through our wholly-owned subsidiary, Swiftnet. The mobile segment consists of a 50% interest in Vodacom.

Fixed-line
The fixed-line segment accounted for 77.7% (2002: 80.7%) of group operating revenues (after inter-segmental eliminations) and 66.7% (2002: 56.7%) of group operating profit, respectively, at March 31, 2003.

Fixed-line operating expenses In ZAR millions	Year ended March 31

	2002	2003	% Change
Subscriptions and connections	4,410	4,595	4.2
Traffic	17,168	18,001	4.9
Local	4,876	5,616	15.2
Long Distance	3,794	3,562	6.1
Fixed-to-mobile	7,323	7,539	2.9

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