TELKOM GROUP 2010
ANNUAL REPORT

...WELCOME TO A NEW DAWN...

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VISION TO BE AFRICA'S PREFERRED ICT SOLUTIONS PROVIDER.

MISSION TELKOM SA LIMITED IS A LEADING SOUTH AFRICAN-BASED INTERNATIONAL ICT SERVICES GROUP FOCUSED ON LONG-TERM PROFITABILITY THROUGH GROWTH IN EXISTING AND NEW MARKETS.

Fore more information and Telkom's full 2010 annual report, please visit our website at www.telkom.co.za

Chairman's review

CHANGE IS FUNDAMENTAL TO OUR STRATEGY TO GROW OUR MARKET SHARE IN SOUTH AFRICA

It has been a memorable few months since I was appointed as non-executive Chairman of the Telkom board of directors on 1 November 2009 and, up front, I must express my delight at the extent of the support given to me by the Board and the Telkom Group executive management team.

I see my role as Chairman as one of achieving the desired objectives of all our shareholders through ensuring world-class corporate governance practices; managing the Board; facilitating communication between the directors and between the Board and management and playing a key role in succession planning.

Economic environment

The South African economy continues to mirror the global performance and, after bottoming out at minus 7.4% in the first quarter of 2009 it recovered back to positive growth of 3.2% in the fourth quarter and, in line with the global trend, there is a predicted growth of between 2.5% and 3% in 2010. However, consumer spending remains muted as a result of the huge build-up of household debt over the past decade. Even the 5.5% fall in interest rates between December 2008 and March 2010 has not alleviated this problem and any recovery in borrowing in the household sector will, at best, be minimal. It is predicted, however, that there will be some improvement in the growth of consumer spending over the remainder of the year. In addition, corporate credit extension remains sluggish, indicating the cautious approach corporates have towards investment and growth.

Different policy approaches from developed nations as to whether or not they should cut back on their stimulus packages increases the risk of a double dip recession. In South Africa the expanded infrastructure and development programme and the FIFA World Cup™ buoyed the economy somewhat. We will however require continued infrastructure investment into the future in order to achieve continued growth.

Global telecommunications developments

As a result of the liberalisation of telecommunications markets in most developed countries, and the increasing rate of liberalisation in developing economies, all industry participants, including IT and mobile, will have to change the way they do business. Fixed-mobile substitution; tariff slow downs; changes in the regulatory landscape; increased competition and on-going mobile broadband growth have all contributed to a continuous decline in traditional fixed-line voice revenues in all markets. This situation is compounded by the mobile operators who are increasingly seeking growth through entry into the fixed lines' traditional data services market and vice versa.

At the same time, IT companies are expanding into traditional telecommunications markets and the power of equipment companies is also increasing. Collectively these developments coupled with the emergence of new products and applications have resulted in increased consumer demand for higher bandwidth. The future of our network centres around our investment in the Next Generation Network and, through the launch of our mobile business in the latter part of the 2010 calendar year.

While convergence requires increasingly higher bandwidth, operators are being hampered in their quest to invest in more capacity by the extreme pressure on them to reduce pricing to consumers and, at the same time, limit capital expenditure to ensure sufficient cash flow for healthy returns to shareholders.

At the same time we must not lose sight of the fact that the global plethora of search engines, Voice Over Internet Protocol (VoIP) service providers and social networks depend on operators like us to provide future world-class networks. To ensure this happens, there must be an equitable share of revenue between both parties as we have to provide, in addition to this service, network security and exponentially increasing bandwidth capacity.

Financial performance and strategic direction

Our financial performance in the year under review starkly illustrates the above developments. Telkom Group revenue grew 0.7% and operating expenditure grew 8.4% resulting in EBITDA margin falling from 31.5% to 26.5%. In spite of these pressures, Telkom's drive to reduce operating expenditure is evident in the improvement in cost increases from the first half of the financial year into the second half. Additionally, every effort is being made to improve the bottom line performance.

Multi-Links performance has been weak and we are investigating ways to maximise the shareholder value of this operation.

A key strategic thrust going forward is our entry into the mobile market which will allow us to leverage the core strengths of our high quality, resilient fixed line network. To achieve this we had to sell our 50% stake in the Vodacom group as our shareholding agreement with Vodafone precluded us from entering the mobile field while we owned a stake in Vodacom. This is an exciting move by the Group.

Another thrust was the establishment of our world-class Data Centre operation in Bellville in the Western Cape. This will enable us to further leverage our core network strength and move up the value-added IT services chain for additional revenue growth.

The new centre has already been nominated for the most Innovative Data Centre Project in the world by Cisco, notably for the use of green technology (more details on this can be found on pages 71 and 88 of the full annual report available at www.telkom.co.za). While lead times remain long we are confident that we will secure traction in the local data centre market and, in time, offer our services to the rest of Africa.

Our African expansion continues through our investments in Africa Online and MWEB Africa which we are in the process of merging into a new entity, iWayAfrica. Through this entity our footprint in 32 African countries gives us further opportunities to sell our services into the continent.

Regulatory environment

The regulatory environment continues to present Telkom, and all other telecommunications operators, with challenges as the Independent Communication Authority of South Africa (ICASA) attempts to change the competitive landscape and reduce the cost of telecommunications in South Africa.

In order for us to continue to invest in future capacity and networks, the regulatory environment should provide a balance by encouraging access by

Chairman's review (continued)

content providers and the need for operators such as ourselves to make a reasonable return on investment.

Corporate governance

Corporate governance is a system of policies, procedures and behaviours which reduce the risk of corporate failure and under achievement. For us it is important that we marry our principles with the guidelines set out in the King II and III reports.

We have introduced a number of best practice structures and processes, including the addition of new Board sub-committees. We reviewed and strengthened charters and guidelines, strengthened the company secretariat, governance resources and accountability in the Group. In addition, work on the expansion and functional efficiency of the Board continues and the Articles of Association continue to be improved through amendments to update and improve the Articles in line with the principles of good corporate governance. A full report of our corporate governance and enterprise risk management framework can be found on pages 46 and 54 of the full annual report available at www.telkom.co.za.

Sustainable development and Broad Based Black Economic Empowerment

In line with good corporate practice and King III, we are committed to infusing the concepts and practices of sustainability into every business decision from strategy to operations.

We are a key driver in the growth and transformation of the South African economy and we believe that Black Economic Empowerment (BEE) should deliver meaningful and broad-based empowerment to the majority of the country's people.

Our support for Broad Based Black Economic Empowerment (BBBEE) is underscored by our spend of R9.3 billion with empowered or significantly empowered suppliers during the year under review.

Through the Telkom Foundation we contributed R52 million towards the development of disadvantaged communities, focusing on three main areas – education and training, the empowerment of women, children and people with disabilities and ICT planning and rollout.

While we remain a champion of BBBEE with excellent performances in some areas (10 out of 10 for management control and 19.1 out of 20 for preferential procurement) our overall BBBEE status is relatively low. We are reviewing our options in this area. The detailed report on our BBBEE activities can be found on page 60 of the full annual report available at www.telkom.co.za.

The FIFA Confederations Cup™ and the 2010 FIFA World Cup™

There were 100% broadcast efficiencies of the FIFA Confederations Cup in June 2009 and the FIFA World Cup™ in June and July 2010 as a result of our backbone ICT infrastructure. Our core network was stable for both tournaments with not one single incident on our network impacting on customer service. Our Automatic Switching Transfer Network (ASTN) which ensured a built-in redundancy, plus a second Telkom hub in each stadium, ensured that we were fully prepared for this important event. There were no visible network-related glitches from our side, something I and the Board are very proud of.

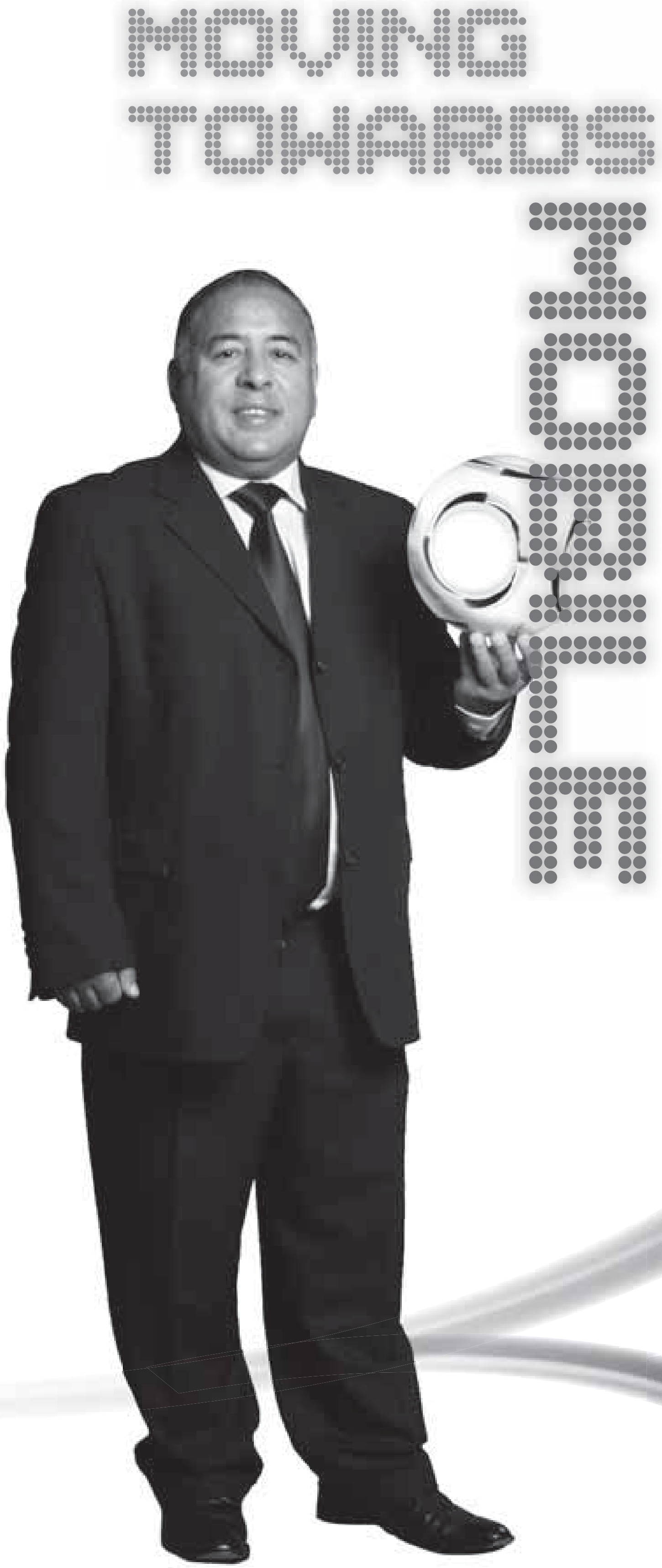
Appreciation

As you are aware, our CEO Reuben September, has elected to retire from the Group after 33 years service with the Group. He leaves behind a strong and accomplished management team which will guide us into the future until we find a replacement CEO. We thank him for his contribution to the Group. In addition, our CFO Peter Nelson resigned from the Group effective 9 October 2010. Peter was enormously valuable to Telkom and we are in the process of sourcing a successor.

I would like to thank all our employees for their ongoing commitment to transform Telkom into the company of the future and for constantly delivering new levels of excellence, products and services to our customers.

Jeff Molobela
Chairman

Chief Executive Officer's review



The year under review was, to put it mildly, one of the most difficult in our history. We faced significantly increased competition; a market characterised by relatively slow growth for all telecommunications operators and increased regulatory challenges.

On the upside:

- We implemented our new structure in April 2009 with our South African business evolving into three distinct business units, each accountable for its own profit and loss. These units are: Telkom South Africa (Wholesale and Networks, Business, Residential and Mobile); Telkom International (Multi-Links, MWEB Africa, Africa Online and Telkom Management Services), and Telkom Data Centre Operations. This latter unit offers data hosting services to Telkom and third parties.
- In May 2009 we successfully divested our shareholding in Vodacom at an exceptional price which delivered significant value to our shareholders.
- June 2009 saw us successfully deliver on our communications role for the FIFA Confederations Cup™ competition.
- In August we delisted from the New York Stock Exchange, a move that saved us considerable time and money from the resultant reduction in auditing time and auditing fees necessary in terms of the onerous Sarbanes Oxley Act.
- The business plans for the Fixed Mobile Convergence (FMC) and Data Centre Operations were approved by the Board in September 2009.
- Our culture revitalisation process was launched in October 2009.
- Our Data Centre Operations business unit, trading under the name of Cybernest, was launched in November 2009.
- The first quarter of 2010 was dedicated to ensuring our readiness for the FIFA World Cup™ along with an on-going commitment to improve our EBITDA.

THE YEAR UNDER REVIEW WAS, TO PUT IT MILDLY, ONE OF THE MOST DIFFICULT IN OUR HISTORY

Financial overview

Our normalised operating revenue grew by 0.7% to R37.0 billion in the year under review. Normalised operating profit from continuing operations declined by 32.2% to R4.7 billion and operating free cashflow increased significantly to R5.5 billion.

Our normalised EBITDA margin decreased from 31.5% to 26.5%, mainly because of an EBITDA loss of R659 million at Multi-Links and higher Telkom South Africa operating expenditure. The normalised Telkom South Africa EBITDA margin decreased to 36.2% from 39.6% as at 31 March 2009.

We reported a 11.2% decrease in normalised headline earnings per share to 473.0 cents a share. Including the profits from the Vodacom transaction we reported a 1,506.2% increase in basic earnings per share to 7404.7 cents. We declared an ordinary dividend of 125 cents per share and a special dividend of 175 cents per share. The dividend was paid to shareholders on 19 July 2010.

Total traffic revenue fell by 9.3% to R13.9 billion as a result of increased fixed-to-mobile substitution, a trend which is likely to continue and which is one of the major reasons for our decision to launch a mobile service later in 2010. However, our drive to convert minute-based voice revenue into annuity revenue through subscription-based calling plans continues to be successful and contributes to the decline in traditional traffic revenue. Subscription-based calling plans grew revenue by 14.2% to R1.5 billion.

Total voice annuity revenue streams, excluding line installations and reconnection fees grew by 3.7% to R7.7 billion. Our current line penetration rate for Closer packages is 53.5%, up from 41.7% last year. By 2013/14 we are targeting a 56% penetration. Total data annuity revenue, including data connectivity, leased line facilities, internet access, managed data networks and multi-media services grew by a pleasing 7.1% to R10 billion. We intend to continue to exploit the competitive edge our high-quality network gives us in the corporate data market.

Broadband and converged services performed very well with a 18.1% growth in subscribers to 647,462 and there was a pleasing 25.4% increase in Do Broadband subscribers to 236,512. Internet all-access subscribers grew to 511,535, an increase of 20.9%.

Our normalised operating expenses, excluding the effects of the Vodacom transaction and other unusual items, increased by 8.4% to R32.7 billion. Employee expenses rose 11.4% to R8.9 billion, mostly as a result of our agreement with the unions to implement a salary increase of 11.2% in the 2010 financial year. Selling, general and administrative expenses rose 16.5% to R6.6 billion; service fees were up 4.8% to R2.7 billion and payments to other operators decreased by 0.5% to R8.4 billion, with operating leases increasing by 16.0% to R966 million. Depreciation, amortisation, impairment and write-offs rose 10.0% to R5.1 billion.

As previously stated, we are committed to improving our EBITDA. To achieve this we developed an end state vision. This incorporates a sustainable model to enable us to effectively serve customers via our access line strategy; optimising the product portfolio and sales channel use. Additionally, we looked at ways to extract non-labour efficiencies through, for example, procurement excellence, and examined ways of working more efficiently to improve the quality of the customer experience through, for example, a more effective field force and contact centres.

We are exploring ways to improve the profitability of our marginal businesses, such as payphones and directory services, that, because of our licence obligations, we have to provide. All elements of our operating model – network and IT; marketing; channel and customer and corporate services – were reviewed from a revenue, operating cost and capital expenditure perspective and we looked at the business models of other leading telecommunications operators for benchmarking purposes.

While it is still early days, we have to date achieved a cost saving of R214 million for the year under review; and launched voluntary separation packages.

Strategic overview

Our core strategy of defending and growing profitable revenue, while aggressively managing costs, is non-negotiable, as is our focus on transforming the business from a basic voice and data operation into a fully converged solutions business that integrates voice, data, content and internet services.

The transformation has mammoth implications for the design of our operating systems, product portfolio, customer-facing segments and workforce processes and thus it needs to be approached systematically and analytically. To this end we have employed world-class consultants to help us achieve our objectives and I look forward to the day when the project comes together and we are truly able to offer our customers fully converged products and world-class service. We cannot afford to be distracted by non-core issues and must focus on the critical strategic objectives, all the while decreasing the timeframe between ideas and implementation, being brutal when it comes to corrective action and always ensuring that the customer is at the centre.

Defending profitable revenue

Defending our traditional voice revenue in these highly competitive times is challenging. The issue is compounded by the proliferation of mobile phones and an apparent lack of knowledge about the less expensive, higher quality fixed-line services available. In spite of this, we continue to convert revenue to annuity revenue through packaged call minutes with access line rental in attractive subscription-based value packages. Equally, offering superior value propositions to our customers gives us the platform to build customer loyalty and retention. We also continue to balance our tariffs in our quest to improve our competitiveness.

Growing profitable revenue through fixed-wireless/mobile voice and data products

Pulling traffic back on to our network is critical for our revenue growth, as is offering a fully converged and integrated service, hence our decision to enter the mobile market. Once it is up and running we will be able to take advantage of our investment in the Next Generation Network and expand and complement our broadband coverage thus giving our customers the opportunity to design a package that combines whatever telecommunications products and services they need.

From day one our mobile service will provide national coverage through our own network and through our roaming agreement with MTN. This agreement consists of a floor price which includes a certain amount of minutes. Should we not use the minutes in the floor price, these will roll over for 12 months and any minutes we use over those in the floor will be paid for on a volume basis. The contract is renewable annually and has a six months notice escape clause.

Essentially, our mobile service will focus on quality, value and simplicity. Because we are building our mobile network with the latest and best technology and because we can harness the strengths of our fixed-line network, we will be offering superior mobile speeds. The technology will also enable us to move to 4G/LTE via a simple software upgrade. The mobile network will also enable us to substitute mobile for fixed-line access where possible which will significantly decrease our maintenance costs.

Growing profitable revenue through broadband and converged services
As of our year end we grew broadband subscribers by 25.4% to 236,512. We will capitalise on this by increasing our broadband penetration across the country through the extension of our converged broadband footprint and through partnerships with content providers which will enhance our offerings. We will also increase our bandwidth capacity to offer higher applications and provide the enterprise market with converged, end-to-end information, communications and technology solutions. Our Next Generation Network will increasingly enable us to offer highly innovative solutions and improved value propositions to all customer segments. Additionally, where synergistic opportunities exist, we will partner with local and global leaders.

Commercialise data centre offerings
We intend to grow our data centre business operations in South Africa and Africa by leveraging under-used infrastructure and buildings, including the undersea cables, and by leveraging relationships with existing customers to offer differentiated data centre services in the areas of hosting, desktop and IT systems outsourcing centres.

Our new Data Centre in Bellville, Cape Town, will be a key player in our growth venture.

We are identifying and recruiting the best skills for management, marketing and product development while, at the same time, aggressively pursuing appropriate channel, delivery and equity partners to enable us to enhance our market share and brand positioning. We intend to provide the enterprise market with real time distributed hosting and virtual data centre services, and the consumer market with software as a service (SAAS) and localised data hosting.

Undertaking a steady and selective African growth strategy
Our African investments – Multi-Links, MWEB Africa and Africa Online – have, so far, not lived up to their potential.

Multi-Links has, frankly, seriously underperformed as a result of fiercely competitive market conditions in Nigeria and strategic errors made by management. As a result of its flat revenue growth and an EBITDA loss of R659 million for the year under review, and forecasts going forward which do not paint a picture of sufficient and fast enough investment returns, we have written the net asset value and goodwill down to zero.

The decision was also made to merge MWEB Africa and Africa Online to enable us to become a fully fledged ICT player which can capitalise on our footprint in Africa. The integration is expected to be completed in September 2010.

Through Telkom Management Services we are pursuing lucrative consulting and inorganic ICT growth opportunities.

Prospects

Our strategy to deliver sustainable, profitable growth going forward is benchmarked against global best practices as the creation of shareholder value is the underlying driver of every decision we make. We accept that when embarking on a transformation of this nature and size there will be successes and failures.

As the traditional fixed-line revenue base continues its decline we have no option but to aggressively drive future revenue growth through mobile, broadband and data products and services.

We expect that, over the next three years, competition will continue to constrain revenue growth and, in a transforming industry like ours, targets are inherently risky and investors should not place undue reliance on such targets. However, increased revenues from our data, broadband, mobile and converged businesses are projected to mitigate the impact of increased competition.

The ordinary dividend of 125 cents a share declared for the 2010 financial year represents a 8.7% increase from last year. In addition we declared a special dividend of 175 cents per share. The level of future dividend payments will be based on a number of factors, including the consideration of the financial results, capital and operating expenditure requirements, our debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

Appreciation

As ever, on behalf of the executive committee, I extend my sincere gratitude to the Telkom Board for the guidance and inspiration its members provide. I must also thank the executive team and each and every one of our employees for their dedication and commitment in executing on our restructuring and transformation. Thanks also to our suppliers and customers for their continued and valued support.

Conclusion

The process of market liberalisation and the brave new world of convergence have had a huge impact on the Telkom Group and, like the industry, the Telkom of 2010 is unrecognisable from its privatisation in 1991. In those 19 years we have undergone a remarkable transformation and that evolution is ongoing. We have to keep moving with the times, explore new ways of creating value and develop innovative solutions that will enable our customers, indeed the entire nation, to extract the maximum value from the almost unlimited possibilities of the ICT industry.

For us at Telkom, the future begins today.

Reuben September
Chief Executive Officer

Chief Financial Officer's review

We successfully concluded the sale and unbundling of our 50% stake in Vodacom during the year which resulted in the following unusual items impacting earnings for the year:

- Profit on the sale of our 15% share in Vodacom of R18,535 million;
- Gain on the unbundling of our 35% share in Vodacom of R25,688 million;
- Capital gains tax on the sale and unbundling of our Vodacom shares of R1,353 million;
- Secondary taxation on companies (STC) on the special dividend relating to the sale of Vodacom of R977 million;
- Reversal of the deferred tax asset relating to capital gains tax on the Vodacom sale of R421 million;
- Compensation expense recognised in terms of IFRS2 relating to the amendment of the Telkom Conditional Share Plan of R951 million;
- Fair value loss on the mark to market valuation of Vodacom shares held at 31 March 2010, of approximately R15 million.

The above items have been excluded from the normalised results.

THE INCREASE IN EMPLOYEE EXPENSES IS DUE TO THE INCREASE IN SALARIES AND WAGES IN TELKOM SOUTH AFRICA

In Nigeria, economic and competitive conditions were tough. In addition, inventory write downs and subsidies were higher and accordingly, Multi-Links Nigeria reported EBITDA losses higher than those of the previous year. The level of inventories and inventory commitments were abnormally high given the market circumstances of Nigeria and have been normalised.

The continuing poor performance of Multi-Links attributable to the local and global economic factors, intensely competitive mobile market, and the relative disadvantaged scale of these operations, has necessitated the full impairment of the Multi-Links goodwill of R2.1 billion and the full net asset value of R3.0 billion. The impairments were also excluded from the normalised results. Multi-Links remains a major concern. The Board is considering how best to reduce exposure to risk in Nigeria. Other unusual items that have been excluded are:

- STC on the special dividend declared of R135 million; and
- profit from the disposal of Telkom Media of R68 million.

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 used within 24 months enables us to pay a further special dividend of 175 cents per share (2009: 260 cents).

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.

Group operating revenue

Normalised 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 11 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.

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.

Group operating expenses

Normalised 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 use 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.

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

Normalised 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 to 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. This resulted in a reduction of the finance cost paid by the Group.

Chief Financial Officer's review **(continued)**

Taxation

Normalised 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 40.8% (2009: 47.6%). 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 for the year and earnings per share

Normalised profit from continuing operations decreased by 7.1% to R2,272 million (2009: R2,445 million). Group basic earnings per share from continuing operations decreased 12.0% to 425.2 cents per share (2009: 483.1 cents) and Group headline earnings per share from continuing operations decreased by 11.2% to 473.0 cents per share (2009: 532.7 cents). The inventory write-offs, handset subsidiaries and bad debts incurred in the current year is not expected to be repeated at the same levels going forward.

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 Group also repaid term loans of R2,000 million and partly repaid the syndicated loan of R820 million during the year under review.

Group 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 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 after the R497 million payment relating to the acquisition of MWEB Africa.

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%).

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%). Funding relating to Telkom Mobile capital expenditure is fully prefunded by shareholders. During the year R181 million was capitalised.

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.

Prospects

Telkom's strategy is designed to deliver sustainable, profitable growth going forward and is benchmarked against global best practice. The creation of sustainable shareholder value is the underlying driver of every decision made. Telkom's Board and management team believe in the cost efficiencies and cash flows of the fixed-line business and are committed to addressing this while we invest for growth in new areas of business.

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 for net debt to EBITDA for the 2011 financial year is expected to be 1.4 times.

The level of dividend going forward will be based on a number of factors including the consideration of the financial results, available growth opportunities, capital and operational requirements, the Group's debt level, interest coverage, internal cash flows, prospects and resources.

Peter Nelson
Chief Financial Officer

Board of directors

JEFF MOLOBELA
Chairman, Class A representative

Jeff Molobela was appointed as a non-executive director and as Chairman of the Telkom SA Limited Board of Directors from 1 November 2009. Mr Molobela holds a BSc (Eng) Honours degree from the Imperial College (London University) and an MBA from the Imperial College Business School (London University). He has extensive experience in financial services, has served on numerous company boards and board committees and consulted to Denel and Armscor. Mr Molobela has served on the Boards of Africon Engineering Limited, Transnet, Primegro Limited, CBS Properties Limited, Growthpoint Properties Limited and Decillion Limited. Mr Molobela currently serves on the boards of N3TC Limited and Cashbuild Limited.

REUBEN SEPTEMBER
Group Chief Executive Officer

With 33 years' experience in the IT and telecommunications industry, Reuben September was appointed acting Chief Executive Officer in April 2007; appointed to the Board in May 2007 and appointed CEO of Telkom in November 2007. He has served as Managing Executive of Technology and Network Services; Chief Technical Officer and Chief Operating Officer and also as a director of Vodacom. Mr September has a BSc in electrical and electronic engineering from the University of Cape Town and is a member of the Engineering Council of South Africa (ECSA). Mr September retired as Group Chief Executive Officer on 7 July 2010.

PETER NELSON
Chief Financial Officer

Peter Nelson, BComm, BAcc (Honours), CA, was appointed to the Board on 8 December 2008. Mr Nelson has served at board level for a number of local and international corporations including Netcare, General Health Care Group (United Kingdom), Pretoria Portland Cement, Mondi and BMW South Africa. Mr Nelson resigned with effect from 9 October 2010.

JACKIE HUNTLEY
Class A representative

Ms Huntley, who was appointed to the Board in September 2007, is an attorney and senior partner at Mkhabela Huntley Adekeye Inc, one of the major black law firms in South Africa. She has extensive experience in commercial and corporate law, including telecommunications law. She holds BProc and LLB degrees from the University of the Witwatersrand along with a Management Advanced Programme certificate.

Board of directors (continued)

BRAHM DU PLESSIS
Independent

Brahm du Plessis was appointed to the Board in December 2004. A practising advocate at the Johannesburg Bar since 1987, Advocate Du Plessis, who holds BA and LLB degrees from the University of Stellenbosch and an LLM degree from the University of London, is a member of Advocates For Transformation and has served as a member of the Johannesburg Bar Council.

DR EKWOW SPIO-GARBRAH
Class A representative

Appointed to the Board in September 2007. Dr Spio-Garbrah is the Chief Executive Officer of the London-based Commonwealth Telecom Organisation and Ghana's former Minister of Communication and Education. He holds a BA (Hons) English from the University of Ghana, a Graduate Certificate in International Banking from the New York University; a Graduate Diploma in Journalism and Communication and an MA in International Affairs from Ohio University and LLD (Honorary Doctorate in Laws) from Middlebury, a university in the USA. Dr Spio-Garbrah resigned as a director on 1 May 2010.

JULIA HOPE
Class A representative

Ms JN Hope was appointed to the Board on 1 November 2009. Ms Hope holds an MSc (Eng. Telecommunications) from Moscow Technical University of Communications and Information Technology, and is a member of the South African Institute of Electrical Engineers (SAIEE). Her early career was devoted to mastering both telecommunications and broadcasting in a corporate and government environment. She has over 15 years experience in the electronic communication industry, having previously worked for the broadcasting industry, and the Independent Communications Authority of South Africa (ICASA).

SIBUSISO LUTHULI
Independent

Sibusiso Luthuli, has been recently appointed as the Chief Executive of the Eskom Pension and Provident Fund. Previously he has been the Chief Executive Officer of Ithala Limited since 2004. He was appointed to the Telkom Board in July 2005. A qualified chartered accountant (SA), Mr Luthuli holds a BComm degree and a post graduate diploma in accountancy. He is non-executive Chairman of the listed pharmaceutical company Cipla Medpro SA Limited.

DR VICTOR LAWRENCE

Class A representative

Dr Lawrence was appointed to the Board in September 2007 and holds BSc, MSc and PhD degrees in Electrical and Computer Engineering from the University of London, is the Charles W Bachelor Chair Professor of Electrical and Computer Engineering and Associate Dean for Special Programs at Stevens Institute of Technology. Formerly he served as the vice-president at AT & T and Lucent Technologies.

DAVID BARBER

Independent

Appointed to the Board in September 2008, Mr Barber is the former global Chief Financial Officer of AngloCoal and former Chief Financial Officer for the Anglo American Corporation of South Africa. Mr Barber is a chartered accountant (South Africa) and FCA (England and Wales) and serves as an independent non-executive director and member of the audit committee for Murray & Roberts. Mr Barber resigned as a director on 20 April 2010.

BRIAN MOLEFE

Class B representative

Appointed to the Board in July 2008, Mr Molefe is the former Chief Executive Officer of the PIC. He is also a former deputy Director General at the National Treasury and Chief Director: strategic planning in the office of the Premier of Limpopo, Mr Molefe holds a Masters of Business Leadership and BCom degrees from the University of South Africa. He also has a post-graduate Diploma in Economics from London University, School of Oriental and African Studies. Mr Molefe resigned as a director on 20 April 2010.

PETER JOUBERT

Independent

Mr Joubert was appointed to the Board in August 2008. Previously he was the Chief Executive Officer and chairman of Afrox. He has served as the chairman of numerous companies. He is the current Chairman of BDFM Publishers and Sandvik and is a director of SAA and Transnet and external advisor to General Motors SA. He holds a BA degree from Rhodes University, a DPWM from Rhodes and has completed Harvard Business School's Advanced Management Programme.

THAMI MSIMANGO

Managing Director of Telkom International

Mr Msimango was appointed Managing Director of Telkom International on 15 April 2009. Previously he served as Chief of Global Operations and Subsidiaries since 1 November 2007 and Chief Technical Officer from September 2005. He joined Telkom in 1984 and held a number of senior positions, including Managing Executive of Technology and Network Services and Executive Technology, Direction and Integration. Mr Msimango resigned on 31 May 2010.

Chief officers

NAAS FOURIE
Chief of Strategy

Mr Fourie was appointed Chief of Strategy in April 2008 having acted in the position from November 2007. He joined Telkom in 1994. He is a former Managing Executive of Commercial Services and Executive of Marketing Services. He holds a BA, BDivinity and BAcc Science (Honours) degrees and has completed the advanced executive programme of the Kellogg School of Business. Mr Fourie resigned on 31 May 2010.

OUMA RASETHABA
Chief of Corporate Governance

Appointed Chief Corporate Governance Officer in November 2007, Advocate Rasethaba joined Telkom in 2006 as Group Executive of Regulatory and Public Policy. She is a former special director of Public Prosecutions at the National Prosecuting Authority. She holds a BProc degree from the University of the North, an LLB (Hons) and Higher Diploma in Company Law from the University of the Witwatersrand and an LLM from the University of Pretoria.

NOMBULELO MOHOLI
Managing Director of Telkom South Africa

Ms Moholi was appointed managing director of the Telkom SA business unit as of 1 May 2009. Ms Moholi joined Telkom in 1994 as general manager of payphones and became a group executive of regulatory affairs in October 2005 and managing executive of international and special markets in 1999. She holds a BSc degree in Electrical and Electronic Engineering from the University of Cape Town(1984) .

PIERRE MARAIS
Acting Managing Director of Cybernest

Mr Marais was appointed acting Managing Director of the Telkom Group's Data Centre Operations business unit (Cybernest) on 1 August 2009. Previously he served as Group Executive for Network Core Operations. Mr Marais holds his Honours in B.Eng (Electronics) and a Masters in Business Administration (MBA) qualification from the University of Pretoria.

JC SMIT
Acting Chief of Human Resources

Mr Smit was appointed as the acting Chief of Human Resources on 1 November 2009. Previously he served as the Executive of Compensation. He joined Telkom in 1985 and holds a degree in B Com Personnel Management from the University of South Africa and is a member of the South African Award Association.

Management team

Name	AGE at 31 March	Portfolio	Responsibilities	Telkom appointment	Position appointment
Corporate Centre					
Thokozani Mvelase	35	Group Executive: Enterprise Risk Management	Responsible for the Group Enterprise Risk Management, consisting of risk management, forensic investigations, security, business continuity management and insurance.	2002	2009
Charmaine Houvet	36	Group Executive: Corporate Affairs	Responsible for improved governance in the organisation through the design and implementation of key company governance process and policies.	1991	2008
Nicola White	37	Group Executive: Investor Relations	Responsible for liaising with the investor community which includes retail shareholders, analysts and institutional investors.	2006	2006
Mohamed Dukandar	38	Group Executive: Telkom Audit Services	Accountable for developing and implementing internal audit strategies for Telkom Group and subsidiaries and to ensure proper management of the internal audit function. Ensure that significant risks are understood and managed by management and ensure that significant risks are independently and objectively reviewed periodically.	2009	2009
Stafford Augustine	40	Group Executive: Procurement Services	Responsible for overall management of procurement services encompassing strategic sourcing management of outsourced entities, corporate support and BEE.	2007	2007
Robin Coode	43	Group Executive: Specialised Financial Services	Overall responsible for taxation, treasury and corporate investment with specific focus areas that include share buy-back evaluations, trustee responsibilities on retirement funds and a merger and acquisition role through strategy.	1992	2008
Andrew Barendse	43	Group Executive: Regulatory Affairs	Responsible for regulatory affairs which include regulatory strategy and analysis, regulatory compliance, regulatory pricing and costing and protecting Telkom's regulatory rights.	2006	2007
Anton Klopper	48	Group Executive: Legal Services	Responsible for managing the provision of legal advice and assistance to various business units within Telkom.	1991	2005
Deon Fredericks	49	Group Executive: Accounting Services	Responsible for financial accounting, reporting and analysis, financial services, external and regulatory reporting, capital work in progress and asset management.	1993	2008

Management team (continued)

Name	AGE at 31 March	Portfolio	Responsibilities	Telkom appointment	Position appointment
Mike Mlengana	49	Group Executive: Corporate Development	Responsible for implementing Telkom's international expansion strategy through business development and merger and acquisition activities across Africa and other emerging markets.	1995	2005
Steve Lewis	51	Group Executive: Strategy	Responsible for Telkom Group strategy.	1977	2009
Mmathoto Lephadi	53	Group Company Secretary	Responsible for ensuring the proper administration of the Board and corporate governance procedures.	2009	2009
Brenda Kali	55	Group Executive: Group Communication	Guided by the company's business plan, vision and brand strategy, the role of Corporate Communication is to influence stakeholder behaviour through effective, timely and measureable communication making use of world-class reputation management solutions.	2008	2008
Nicolene Rossouw	41	Acting Group Executive: Performance Centre	Responsible for the Performance Centre in support of the company's customer centricity strategy, marketing intelligence and to manage the business improvement function.	1994	2007
Telkom South Africa					
Amith Maharaj	35	Managing Executive: Telkom Mobile	Responsible for development and implementation of the mobile and fixed-mobile converged business and technical strategy.	2008	2008
Marena Janse van Rensburg	37	Managing Executive: Finance	Responsible for all financial reporting, accounting and commercial support to the Telkom South Africa Business unit.	2002	2009
Leisel Ramjoo	38	Acting Managing Executive: Network Core Operations	Responsible for the technical and operational management associated with Telkom's core network.	1994	2009
Manelisa Mavuso	39	Senior Managing Executive: Consumer	Responsible for the residential fixed-line voice and data business including the shared services management role of the contact centre and credit management operation for the retail business.	2009	2009
Tirelo Sibisi	41	Managing Executive: Human Resources	Responsible for managing the end to end Human Resources operations and people strategy for the Telkom South Africa Business Unit.	2007	2009
Erna Korff	41	Managing Executive: Consumer Marketing	Responsible for consumer marketing, product management and implementation for customer portfolio management.	1986	2009

Name	AGE at 31 March	Portfolio	Responsibilities	Telkom appointment	Position appointment
Sammy Gumbe	42	Managing Executive: IT Solutions	Responsible for IT activities including strategy, architecture, portfolio management, development and support.	1992	2009
Bashier Sallie	42	Senior Managing Executive: Wholesale and Networks	Responsible for Network and IT technology strategy, engineering, deployment and operations as well as managing the Wholesale Sales and Marketing division, including International carrier relations and connectivity.	1986	2009
Alphonzo Samuels	44	Managing Executive: Wholesale Services	Responsible for national and international wholesale revenue and customer relationship management.	1984	2007
Casper Kondo Chihaka	48	Managing Executive: Network Field Operations	Responsible for customer service fulfilment and assurance network restoration.	1993	2007
Brian Armstrong	49	Senior Managing Executive: Enterprise	Responsible for products, sales, revenue and customer relationship management for Telkom's enterprise customers, including corporate, government, large, small and medium business segments.	2010	2010
Godfrey Ntoele	49	Managing Executive: Medium and Large Business Services	Responsible for the national sales and marketing operations for Telkom's retail consumers and business enterprises and direct sales to business customers and government entities.	1997	2007
Zethembe Khoza	51	Managing Executive: Consumer Sales, Customer Services and Call Centres.	Responsible for managing all contact points in which customers contact Telkom, such as call centres, Telkom Direct Shops, commercial services and credit management.	1980	2007
Theo Hess	52	Managing Executive: Business Optimisation	Responsible for ensuring that Telkom has the right groups of processes, relationships, assets and resources that enable it to deliver on its strategic objectives.	1976	2007
Thami Magazi	52	Managing Executive: Small Business Sales	Responsible for sales and marketing and all operations in the small medium business services.	2001	2009
Marius Mostert	55	Managing Executive: Network Infrastructure Provisioning	Responsible for network technology, strategy, planning, technical product development and all associated network infrastructure deployment.	1973	2007

Management team (continued)

Name	AGE at 31 March	Portfolio	Responsibilities	Telkom appointment	Position appointment
Mel Lachenicht	56	Acting Managing Executive: Corporate Customers	Responsible for the sales, consultancy, solution design, solution implementation and service management of Telkom's identified corporate customers.	1973	2009
Data Centre Operations					
Althon Beukes	39	Managing Executive: Data Centre Operations	Responsible for the technical operations of Data Centre Operations Business Unit, including technology strategy, planning and product innovation and ensuring proper delivery of data centre services to Telkom South Africa and external customers.	1994	2009
Grant Morgan	40	Managing Executive: Data Centre Operations Marketing and Sales	Responsible for sales, marketing and service product offerings for Data Centre Operations, branded Cybernest.	2010	2010
Telkom International					
Charlotte Mokoena	44	CEO: Telkom Management Services	Responsible for leading marketing, business development, client relations and operations management through management services solutions to sub-Saharan telecommunications operators.	2002	2009

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF TELKOM SA LIMITED

The condensed consolidated financial statements of Telkom SA Limited set out in pages 18 to 51 have been derived from the group annual financial statements, prepared in accordance with International Financial Reporting Standards, of the group for the year ended 31 March 2010. We have audited the group annual financial statements in accordance with statements of International Auditing Standards. In our report dated 22 July 2010, we expressed a modified audit opinion on the group annual financial statements from which the condensed consolidated financial statements were derived with regards to the fact that the previously issued report dated 18 June 2010 had been withdrawn and reissued; the details of which is disclosed in the Directors report.

Opinion

In our opinion, the accompanying condensed consolidated financial statements are consistent, in all material respects, with the group annual financial statements from which they are derived.

Reporting

For a better understanding of the scope of the audit and the group's financial position, the results of its operations and cash flows for the period, the condensed consolidated financial statements should be read in conjunction with our audit report included in the group annual financial statements from which the condensed consolidated financial statements were derived.

Ernst & Young Inc.

Ernst & Young Inc.
Registered Auditor
Pretoria
Republic of South Africa
22 July 2010

Directors' report

To the members of Telkom SA Limited

The directors have pleasure in submitting the annual financial statements of the Company and the Group for the year ended 31 March 2010.

NATURE OF BUSINESS

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

FINANCIAL RESULTS

Profit attributable to owners of Telkom for the year ended 31 March 2010 was R37,458 million (2009: R4,419 million) representing basic earnings per share from continuing operations of 7,404.7 cents (2009: 461.0 cents). Full details of the financial position and results of the Group are set out in the accompanying Group and Company annual financial statements respectively.

DIVIDENDS

The following dividend was declared in respect of the year ended 31 March 2010:

- Ordinary dividend number 15 of 125 cents per share (2009: 115 cents);
- Special dividend of 175 cents per share (2009: 260 cents).

The future level of dividend payments will be based upon a number of factors, including the consideration of financial results, capital and operating expenditure requirements, the Group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

Particulars of the significant subsidiaries of the Group are set out in notes 41 and 42 of the full Group annual financial statements available at www.telkom.co/.za.

The attributable interest of the Group in the after tax earnings from continuing operations of its subsidiaries for the year ended 31 March 2010 were:

	2009 R million	**2010** **R million**
Aggregate amount of loss after taxation	(2,123)	**(5,895)**

SHARE CAPITAL

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2010 are contained in note 16 of the accompanying condensed consolidated annual financial statements.

SHARE REPURCHASE

Shareholders approved a special resolution granting a general authority for the repurchase of shares by the Company at its annual general meeting of 16 September 2009. The Company did not repurchase any shares during the year under review.

BORROWING POWERS

In terms of the Company's articles of association, Telkom has unlimited borrowing powers subject to the restrictive financial covenants of the TL20 bond and Syndicated loans.

CAPITAL EXPENDITURE AND COMMITMENTS

Details of the Group's capital expenditure on property, plant and equipment as well as intangible assets are set out in note 12 of the accompanying condensed consolidated annual financial statements, while details of the Group's capital commitments are set out in note 22.

EVENTS SUBSEQUENT TO STATEMENT OF FINANCIAL POSITION DATE

Events subsequent to the statement of financial position date are set out in note 27 of the accompanying condensed consolidated annual financial statements.

SUBSEQUENT AMENDMENT OF FINANCIAL STATEMENT

Subsequent to Ernst & Young issuing an opinion on 18 June 2010 in respect of the audited provisional consolidated results of Telkom SA Limited for the period ended 31 March 2010, it came to management's attention that note 23 to the condensed consolidated annual financial statements required amendment.

The change was made as a result of an inaccurate reflection of the amounts disclosed with regards to Puthuma's claim in note 23 of the condensed consolidated annual financial statements. This matter was corrected and the annual financial statements were reapproved by the directors on 22 July 2010.

The auditors believed the omission of this information to be material and withdrew their previous opinion dated 18 June 2010. As a result, Telkom withdrew the previous audited provisional consolidated information per the SENS announcement on 23 July 2010.

Directors' report *(continued)*

DIRECTORATE

The following changes occurred in the composition of the Board of Directors from 1 April 2009 to date of this report.

Appointments

J Molobela	1 November 2009
JN Hope	1 November 2009
Y Waja	20 April 2010

Resignations

KST Matthews	30 October 2009
ST Arnold	1 November 2009
B Molefe	20 April 2010
D Barber	20 April 2010
E Spio-Garbrah	1 May 2010
RJ September	Effective 7 July 2010
PG Nelson	Effective 9 October 2010

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

J Molobela	(Chairman)
PG Nelson	(Chief Financial Officer)
B du Plessis	
JN Hope	
VB Lawrence	
PCS Luthuli	
PG Joubert	
RJ Huntley	
Y Waja	

Details of each director may be found on page 9 in the Board of directors section of this annual report.

DIRECTORS' INTERESTS

At 31 March 2010, none of Telkom's directors other than Mr RJ September, Mr PG Nelson, Mr D Barber and Mr J Molobela held any direct and indirect, beneficial and non-beneficial interests in the share capital of the Company. Mr RJ September directly held 110,070 and indirectly held 1,820 ordinary shares, Mr PG Nelson directly and indirectly held 19,255 and 19,812 ordinary shares respectively, Mr D Barber indirectly held 1,200 ordinary shares and Mr J Molobela directly held 267 ordinary shares in Telkom.

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

Condensed consolidated statement of comprehensive income

for the year ended 31 March 2010

	Notes	Restated* 2009 Rm	2010 Rm
Continuing operations			
Total revenue	3.1	36,530	**38,305**
Operating revenue	3.2	36,027	**37,427**
Other income	4	351	**19,005**
Operating expenses		29,619	**39,294**
Employee expenses	5.1	8,015	**9,876**
Payments to other operators	5.2	6,937	**8,386**
Selling, general and administrative expenses	5.3	5,794	**7,000**
Service fees	5.4	2,756	**2,702**
Operating leases	5.5	824	**966**
Depreciation, amortisation, impairment and write-offs	5.6	5,293	**10,364**
Results from operating activities		6,759	**17,138**
Investment income		183	**508**
Gain on distribution of assets	8	–	**25,688**
Finance charges and fair value movements	6	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	7	1,765	**4,485**
Profit from continuing operations		2,334	**37,479**
Profit from discontinued operation	8	2,162	**106**
Profit for the year		4,496	**37,585**
Other comprehensive income			
Exchange differences on translating foreign operations	9	30	**(1,676)**
Realised exchange differences on translating foreign operations	9	–	**(193)**
Available-for-sale investment	9	(8)	**–**
Defined benefit plan actuarial (losses)/gains	9	(1,824)	**130**
Defined benefit plan asset limitations	9	941	**(597)**
Income tax relating to components of other comprehensive income	9	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)	10	882.6	**7,425.7**
Diluted earnings per share (cents)	10	868.5	**7,425.7**
Dividend per share (cents)	10	660.0	**375.0**
Continuing operations			
Basic earnings per share (cents)	10	461.0	**7,404.7**
Diluted earnings per share (cents)	10	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 2.*

Condensed consolidated statement of financial position

at 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	13	605	756	**58**
Current assets		12,609	11,287	**12,301**
Short-term investments		51	–	**–**
Inventories	14	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	15	1,134	1,931	**3,855**
Assets of disposal groups classified as held for sale	8	–	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	16	5,208	5,208	**5,208**
Treasury shares	17	(1,638)	(1,517)	**(1,171)**
Share-based compensation reserve	18	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	8	–	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	19	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	13	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	20	23	**23**
Current portion of interest-bearing debt	19	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	15	1,342	127	**62**
Liabilities of disposal groups classified as held for sale	8	–	15,873	**–**
Total liabilities		38,261	50,276	**26,555**
Total equity and liabilities		70,372	85,771	**56,819**

Condensed consolidated statement of changes in equity

for the year ended 31 March 2010

	Attributable to equity holders of Telkom								
	Share capital Rm	Treasury shares Rm	Share-based compensation reserve Rm	Non-distributable reserves Rm	Retained earnings Rm	Discontinued operations Rm	Total Rm	Non-controlling interest Rm	Total equity Rm
Balance at 31 March 2008	5,208	(1,638)	643	1,292	27,310		32,815	522	33,337
Change in accounting policy (refer to note 2)					(1,226)		(1,226)		(1,226)
Restated opening balance	5,208	(1,638)	643	1,292	26,084		31,589	522	32,111
Total comprehensive income				(181)	3,786	181	3,786	93	3,879
Profit for the year					4,419		4,419	77	4,496
Other comprehensive income				(181)	(633)	181	(633)	16	(617)
Exchange differences on translating foreign operations				(181)		189	8	16	24
Available-for-sale investment						(8)	(8)		(8)
Net defined benefit plan losses					(633)		(633)		(633)
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners	–	121	433	661	(3,306)	–	(2,091)	–	(2,091)
Dividends paid (refer to note 20)					(3,306)		(3,306)		(3,306)
Increase in share-based compensation (refer to note 18)			554				554		554
Shares vested and re-issued (refer to note 18)		121	(121)				–		–
Non-controlling interest put option				661			661		661
Transfer to non-distributable reserves				(10)	10		–		–
Discontinued operations				(4)		4	–		–
Broad-based black economic empowerment transaction in Vodacom						691	691	271	962
Contributions by and distributions to non-controlling interest									
Dividends declared							–	(33)	(33)
Changes in ownership interests							–		–
Acquisition of subsidiaries and minorities					667		667		667
Balance at 31 March 2009	5,208	(1,517)	1,076	1,758	27,241	876	34,642	853	35,495
Balance at 31 March 2009	**5,208**	**(1,517)**	**1,076**	**1,758**	**28,852**	**876**	**36,253**	**853**	**37,106**
Change in accounting policy (refer to note 20					**(1,611)**		**(1,611)**		**(1,611)**
Restated opening balance	**5,208**	**(1,517)**	**1,076**	**1,758**	**27,241**	**876**	**34,642**	**853**	**35,495**
Total comprehensive income				**(1,345)**	**37,123**	**(193)**	**35,585**	**127**	**35,712**
Profit for the year					**37,458**		**37,458**	**127**	**37,585**
Other comprehensive income				**(1,345)**	**(335)**	**(193)**	**(1,873)**		**(1,873)**
Exchange differences on translating foreign operations				**(1,345)**			**(1,345)**		**(1,345)**
Exchange differences realised						**(193)**	**(193)**		**(193)**
Net defined benefit plan losses					**(335)**		**(335)**		**(335)**
Transactions with owners recorded directly in equity									
Contributions by and distributions to owners	**–**	**346**	**984**	**–**	**(41,632)**	**–**	**(40,302)**	**–**	**(40,302)**
Dividends paid: Vodacom transaction					**(30,357)**		**(30,357)**		**(30,357)**
Dividends paid (refer to note 20)					**(11,275)**		**(11,275)**		**(11,275)**
Increase in share-based compensation (refer to note 18)			**379**				**379**		**379**
Vodacom transaction (refer to note 18)			**951**				**951**		**951**
Shares vested and re-issued (refer to note 18)		**346**	**(346)**				**–**		**–**
Reserves recognised on disposal of Vodacom					**683**	**(683)**	**–**		**–**
Transfer to non-distributable reserves				**287**	**(287)**		**–**		**–**
Transfer from non-distributable reserve				**(80)**	**80**		**–**		**–**
Contributions by and distributions to non-controlling interest									
Dividends declared							**–**	**(105)**	**(105)**
Changes in ownership interests									
Disposal of non-controlling interest							**–**	**(536)**	**(536)**
Balance at 31 March 2010	**5,208**	**(1,171)**	**2,060**	**620**	**23,208**	**–**	**29,925**	**339**	**30,264**

Condensed consolidated statement of cash flow

for the year ended 31 March 2010

	Notes	2009 Rm	**2010 Rm**
Cash flows from operating activities		11,432	**(3,317)**
Cash receipts from customers		61,302	**36,925**
Cash paid to suppliers and employees		(40,085)	**(24,198)**
Cash generated from operations		21,217	**12,727**
Interest received		485	**802**
Finance charges paid		(2,164)	**(578)**
Taxation paid		(4,770)	**(4,888)**
Cash generated from operations before dividend paid		14,768	**8,063**
Dividend paid	20	(3,336)	**(11,380)**
Cash flows from investing activities		(17,005)	**15,578**
Proceeds on disposal of property, plant and equipment and intangible assets		43	**21**
Proceeds on disposal of investment		–	**20,599**
Additions to property, plant and equipment and intangible assets		(13,191)	**(4,545)**
Acquisition of subsidiaries and minorities		(3,778)	**(497)**
Additions to other investments		(79)	**–**
Cash flows from financing activities		7,093	**(10,096)**
Loans raised		18,168	**2,727**
Loans repaid		(10,212)	**(11,315)**
Finance lease capital repaid		(136)	**(399)**
Increase in net financial assets		(727)	**(1,109)**
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	15	1,282	**3,793**
**Reconciliation of cash and cash equivalents at beginning of year*			
Net cash and cash equivalents 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 annual financial statements

for the year ended 31 March 2010

1. CORPORATE INFORMATION

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

- fixed-line subscription and connection services to post-paid, prepaid and private payphone customers using PSTN ('Public Switched Telephone Network') lines, including ISDN ('Integrated Services Digital Network') lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to post-paid, prepaid and payphone customers, including local, long distance, fixed-to-mobile, international outgoing and international voice-over-internet protocol traffic services;
- interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
- fixed-line data and internet services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL ('Asymmetrical Digital Subscriber Line') services, packet-based services, managed data networking services and internet access and related information technology services;
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services;
- W-CDMA ('Wideband Code Division Multiple Access'), a 3G next generation network, including fixed voice services, data services and nomadic voice services; and
- other services including directory services, through Trudon (Proprietary) Limited, wireless data services, through Swiftnet (Proprietary) Limited, internet services outside South Africa, through Africa Online Limited and MWEB Africa Limited and information, communication and telecommunication operating services in Nigeria, through Multi-Links Telecommunications Limited, provision of management services to ICT (Information Communication and Technology) through Telkom Management Services.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated 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 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 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 actuarial 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**

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

		Restated* 2009 Rm	2010 Rm
3.	**REVENUE**		
3.1	**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, refer to note 4)	320	**370**
	Investment income	183	**508**
3.2	**Operating revenue**	36,027	**37,427**
	Telkom South Africa	33,642	**33,885**
	Multi-Links	1,900	**1,887**
	Other	1,398	**1,781**
	International	194	**465**
	South Africa	1,204	**1,316**
	Eliminations	(913)	**(126)**

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

		Restated* 2009 Rm	2010 Rm
4.	**OTHER INCOME**	351	**19,005**
	Other income (included in Total revenue, refer to note 3)	320	**370**
	Interest received from trade receivables	270	**294**
	Sundry income	50	**76**
	Profit on disposal of property, plant and equipment and intangible assets	31	**32**
	Profit on disposal of subsidiary and joint venture* (refer to note 8)	–	**18,603**

Profit on disposal of R18,603 million is profit of R18,535 million for Vodacom (15% holding) and R68 million for Telkom Media.

**Gain on distribution of 35% shareholding in joint venture is reported separately.*

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

		Restated 2009 Rm	2010 Rm
5.	**OPERATING EXPENSES**		
	Operating expenses comprise:		
5.1	**Employee expenses**	8,015	**9,876**
	Salaries and wages	6,076	**6,795**
	Medical aid contributions	411	**17**
	Retirement contributions	474	**531**
	Post-retirement pension and retirement fund	(191)	**(129)**
	Current service cost	4	**5**
	Interest cost	633	**577**
	Expected return on plan assets	(825)	**(711)**
	Settlement gain	(3)	**–**
	Post-retirement medical aid	300	**388**
	Current service cost	95	**97**
	Interest cost	428	**460**
	Expected return on plan asset	(223)	**(169)**
	Telephone rebates	47	**49**
	Current service cost	6	**6**
	Interest cost	39	**41**
	Past service cost	2	**2**
	Share-based compensation expense (refer to note 18)	554	**1,330**
	Other benefits*	1,080	**1,453**
	Employee expenses capitalised	(736)	**(558)**

**Other benefits include skills development, annual leave, performance incentive, service bonuses, medical aid allowance and workforce reduction expenses.*

The increase in salaries and wages is mainly due to a 7.5% salary increase and a percentile adjustment for bargaining unit as agreed upon with unions during September 2009.

The decrease in medical aid contributions is due to the restructuring of employee salary packages which resulted in an increase in other benefits for the current year.

The share-based compensation expense has increased by R951 million due to the change in the vesting conditions of the conditional share plan as a result of the Vodacom transaction.

		Restated 2009 Rm	2010 Rm
5.2	**Payments to other operators**	6,937	**8,386**

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

Payments to other operators have increased due to the fact that in the 2009 year there was an elimination on consolidation of Vodacom for an amount of R1,493 million.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

		2009 Rm	**2010 Rm**
5.	**OPERATING EXPENSES** (continued)		
5.3	**Selling, general and administrative expenses**	5,794	**7,000**
	Selling and administrative expenses	2,380	**3,102**
	Maintenance	2,327	**2,750**
	Marketing	713	**736**
	Bad debts	374	**412**

The increase in the current year's selling and administrative expenses is mainly attributable to the focus on expanding the customer base in Nigeria by means of handset subsidies equalling R227 million as well as writing off obsolete and slow moving inventory of R246 million.

		2009 Rm	**2010 Rm**
5.4	**Service fees**	2,756	**2,702**
	Facilities and property management	1,275	**1,388**
	Consultancy services	295	**191**
	Security and other	1,121	**1,069**
	Auditors' remuneration	65	**54**
	Audit services	58	**48**
	Company auditors	47	**45**
	Other auditors – current year	11	**3**
	Other services	7	**6**
5.5	**Operating leases**	824	**966**
	Land and buildings	245	**401**
	Transmission and data lines	118	**77**
	Equipment	72	**78**
	Vehicles	389	**410**
5.6	**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, R5,160 million (2009: R462 million).

Included in the current financial year's amortisation of intangible assets is an amount of R80 million (2009: R134 million) relating to the FIFA brand intangible asset.

In recognition of the changed usage patterns of certain items of property, plant and equipment and intangible assets, the Group reviewed their remaining useful lives as at 1 April 2009. There were no significant changes to the useful lives assigned to groups of property, plant and equipment and intangible assets.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

		2009 Rm	**2010 Rm**
6.	**FINANCE CHARGES AND FAIR VALUE MOVEMENTS**	2,843	**1,370**
	Finance charges on interest-bearing debt	1,732	**1,313**
	Local debt	1,895	**1,535**
	Foreign debt	–	**11**
	Less: Finance charges capitalised	(163)	**(233)**
	Foreign exchange gains and losses and fair value movement	1,111	**57**
	Foreign exchange losses/(gains)	843	**(1)**
	Fair value adjustments on derivative instruments	268	**58**
	Capitalisation rate for borrowing costs (%)	12.4	**11.7**

Included in finance charges (before capitalisation) is an amount of R1,323 million (2009: R1,655 million) which relates to interest paid on financial liabilities not measured at fair value through profit or loss.

The foreign exchange losses have reduced primarily due to the treatment of the loans as a net investment in Multi-Links. As a result, the related foreign exchange gains/losses are recognised in other comprehensive income.

		Restated	
7.	**TAXATION**	1,765	**4,485**
	South African normal company taxation	1,658	**2,772**
	Current tax	1,686	**2,789**
	Overprovision for prior year	(28)	**(17)**
	Deferred taxation (refer to note 13)	(59)	**780**
	Temporary differences – normal company taxation	346	**55**
	Temporary difference – secondary taxation on companies ('STC') tax credits (raised)/utilised	(89)	**266**
	Capital gains taxation ('CGT') asset	(454)	**454**
	Underprovision for prior year	138	**5**
	Secondary taxation on companies	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.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009 Rm	**2010** **Rm**
8. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE		
8.1 Discontinued operations		
Telkom Media (Proprietary) Limited		
On 4 May 2009 Telkom sold its 75% shareholding in Telkom Media to Shenzhen Media South Africa (Proprietary) Limited for a nominal amount. The results and cash flows of the subsidiary are disclosed as a discontinued operation in accordance with IFRS.		
Analysis of the results of discontinued operations:		
Revenue*	26	**2**
Expenses*	(305)	**104**
(Loss)/profit before taxation of discontinued operations	(279)	**106**
Taxation	(2)	**–**
(Loss)/profit after taxation of discontinued operations	(281)	**106**

* *Revenue comprises operating revenue, other income and investment income. Expenses comprises operating expenses and finance charges and reversal of onerous lease in Telkom Media in 2010.*

	2009 Rm	**2010** **Rm**
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:		
Operating cash flows	(140)	
Investing cash flows	(39)	
Financing cash flows	149	
Total cash outflow**	(30)	

***Operating results for 2010 were all non-cash items, thus there were no cash flows for the one month in 2010.*

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009 Rm	**2010 Rm**
8. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (continued)		
8.2 Disposal groups held for sale		
8.2.1 Vodacom Group (Proprietary) Limited		

Telkom disposed of its 50% interest in Vodacom by selling 15% to Vodafone Group Plc ('Vodafone') and unbundling the remaining 35% to existing shareholders of Telkom on 18 May 2009.

Telkom sold the 15% shareholding to Vodafone for R22,500 million less the attributable net debt of Vodacom as at 30 September 2008.

Telkom agreed to distribute 50% of the after tax proceeds from the sale transactions to Telkom shareholders by way of a special dividend, which amounted to R9,740 million.

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 Distributions 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 of assets was recognised in the statement of comprehensive income of R25,688 million.

	2009 Rm	**2010 Rm**
Analysis of the results of discontinued operations included in 2009:		
Revenue*	26,215	
Expenses*	21,749	
Profit before taxation of discontinued operations	4,466	
Taxation	2,023	
Profit from discontinued operations	2,443	
The major classes of assets and liabilities of the business classified as a disposal group in 2009:		
Assets	23,410	
Property, plant and equipment	10,922	
Intangible assets	5,897	
Trade and other receivables	4,283	
Other non-current and current assets	2,308	

** Revenue comprises operating revenue, other income and investment income. Expenses comprises operating expenses and finance charges.*

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009 Rm	2010 Rm
8. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE (continued)		
8.2 Disposal groups held for sale (continued)		
8.2.1 *Vodacom Group (Proprietary) Limited* (continued)		
Liabilities	15,858	
Interest-bearing debt	4,170	
Trade and other payables	4,679	
Current portion of interest-bearing debt	2,882	
Current portion of deferred revenue	1,260	
Credit facilities utilised	1,102	
Other non-current and current liabilities	1,765	
Reserve of disposal group held for sale	876	
The net cash flows attributable to the operating, investing and financing activities of the disposal group:		
Operating cash flows	2,092	
Investing cash flows	(6,375)	
Financing cash flows	4,436	
Total cash inflow	153	

8.2.2 *Swiftnet (Proprietary) Limited*

In February 2009 Telkom's Board of Directors took a decision to dispose of its 100% shareholding in Swiftnet (Proprietary) Limited. The investment was then classified as held for sale in terms of IFRS5.

In February 2010, the Telkom Board rescinded the decision to sell Swiftnet as management did not believe that it was in shareholders' interest to proceed with the disposal at that stage.

Comparative information in the statement of comprehensive income has been restated to include the results of Swiftnet in continuing operations.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

		2009 Rm	2010 Rm
9.	**EFFECTS 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 the year	244	**463**
	Other comprehensive income for the year net of taxation	(617)	**(1,873)**
10.	**EARNINGS PER SHARE**		
	Total operations		
	Basic earnings per share (cents)	882.6	**7,425.7**
	The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R37,458 million (2009: R4,419 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		
	Diluted earnings per share (cents)**	868.5	**7,425.7**
	The calculation of diluted earnings per share is based on earnings for the year of R37,458 million (2009: R4,419 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		
	Headline earnings per share (cents)*	1,044.3	**67.8**
	The calculation of headline earnings per share is based on headline earnings of R342 million (2009: R5,229 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		
	Diluted headline earnings per share (cents)**	1,027.7	**67.8**
	The calculation of diluted headline earnings per share is based on headline earnings of R342 million (2009: R5,229 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009	**2010**
10. EARNINGS PER SHARE (continued)		
Continuing operations		
Basic earnings per share (cents)	461.0	**7,404.7**
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R37,352 million (2009: R2,308 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		
Diluted earnings per share (cents)**	453.6	**7,404.7**
The calculation of diluted earnings per share is based on earnings for the year of R37,352 million (2009: R2,308 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		
Headline earnings per share (cents)*	610.5	**46.8**
The calculation of headline earnings per share is based on headline earnings of R236 million (2009: R3,057 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		
Diluted headline earnings per share (cents)**	600.8	**46.8**
The calculation of diluted headline earnings per share is based on headline earnings of R236 million (2009: R3,057 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		
Discontinuing operations		
Basic earnings per share (cents)	421.6	**21.0**
The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R106 million (2009: R2,111 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		
Diluted earnings per share (cents)**	414.9	**21.0**
The calculation of diluted earnings per share is based on earnings for the year of R106 million (2009: R2,111 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		
Headline earnings per share (cents)*	433.8	**21.0**
The calculation of headline earnings per share is based on headline earnings of R106 million (2009: R2,172 million) and 504,437,832 (2009: 500,700,538) weighted average number of ordinary shares in issue.		

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009	2010
10. EARNINGS PER SHARE (continued)		
Discontinuing operations** (continued)		
Diluted headline earnings per share (cents)**	426.9	**21.0**
The calculation of diluted headline earnings per share is based on headline earnings of R106 million (2009: R2,172 million) and 504,437,832 (2009: 508,782,641) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.		
Reconciliation of weighted average number of ordinary shares:		
Ordinary shares in issue (refer to note 16)	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**

**The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular issued in this regard.*

***Diluted earnings per share and diluted headline earnings per share in 2010 result in anti-dilution.*

Total operations	**Gross Rm**	**Net* Rm**
2010		
Reconciliation between earnings and headline earnings:		
Earnings as reported		**37,458**
Profit on disposal of investments	**(18,603)**	**(16,829)**
Profit on disposal of property, plant and equipment and intangible assets	**(32)**	**(27)**
Impairment loss on property, plant and equipment and intangible assets	**5,163**	**5,163**
Write-offs of property, plant and equipment and intangible assets	**317**	**265**
Gain on distribution of non-cash asset	**(25,688)**	**(25,688)**
Headline earnings		**342**
2009		
Reconciliation between earnings and headline earnings:		
Earnings as reported		4,419
Profit on disposal of property, plant and equipment and intangible assets	(25)	(21)
Impairment loss on property, plant and equipment and intangible assets	557	557
Write-offs of property, plant and equipment and intangible assets	322	274
Headline earnings		5,229

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

10. EARNINGS PER SHARE (continued)

Continuing operations	Gross Rm	Net* Rm
2010		
Reconciliation between earnings and headline earnings:		
Profit from continuing operations		**37,479**
Non-controlling interest		**(127)**
Earnings from continuing operations attributable to equity holders of Telkom		**37,352**
Profit on disposal of investments (available-for-sale)	**(18,603)**	**(16,829)**
Profit on disposal of property, plant and equipment and intangible assets	**(32)**	**(27)**
Impairment loss on property, plant and equipment and intangible assets	**5,163**	**5,163**
Write-offs of property, plant and equipment and intangible assets	**317**	**265**
Gain on distribution of non-cash asset	**(25,688)**	**(25,688)**
Headline earnings		**236**
2009		
Reconciliation between earnings and headline earnings:		
Profit from continuing operations		2,334
Non-controlling interest		(26)
Earnings from continuing operations attributable to equity holders of Telkom		2,308
Profit on disposal of property, plant and equipment and intangible assets	(32)	(26)
Impairment loss on property, plant and equipment and intangible assets	501	499
Write-offs of property, plant and equipment and intangible assets	322	276
Headline earnings		3,057
Discontinuing operations		
2010		
Reconciliation between earnings and headline earnings:		
Profit from discontinued operations		**106**
Non-controlling interest		**–**
Earnings from discontinued operations attributable to equity holders of Telkom		**106**
Headline earnings		**106**
2009		
Reconciliation between earnings and headline earnings:		
Profit from discontinued operations		2,162
Non-controlling interest		(51)
Earnings from discontinued operations attributable to equity holders of Telkom	–	2,111
Profit on disposal of property, plant and equipment and intangible assets	7	5
Impairment loss on property, plant and equipment and intangible assets	56	56
Headline earnings		2,172

**Net of tax and non-controlling interest*

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	2009	**2010**
10. EARNINGS PER SHARE (continued)		
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.		
11. 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.		

	Rm	**Rm**
12. CAPITAL EXPENDITURE INCURRED		
Property, plant and equipment	8,640	**4,964**
Intangible assets (including business combinations)	2,215	**910**

	Restated 2008 Rm	Restated 2009 Rm	**2010 Rm**
13. DEFERRED TAXATION	(893)	(448)	**(779)**
Deferred taxation assets	605	756	**58**
Deferred taxation liabilities	(1,498)	(1,204)	**(837)**
Unutilised STC credits	1,830	2,730	**70**

Secondary taxation on companies ('STC') is provided for at a rate of 10% on the amount by which dividends declared exceed dividends received in the specified dividend cycle. The deferred taxation asset is raised as it is probable that it will be utilised in future. The asset will be released as a taxation expense when dividends are declared.

The deferred taxation asset represents STC credits on past dividends received that are available to be utilised against dividends declared.

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		2009 Rm	2010 Rm
14.	**INVENTORIES**	1,974	**1,274**
	Gross inventories	2,165	**1,861**
	Write-down of inventories to net realisable value	(191)	**(587)**
	Inventories consist of the following categories:	1,974	**1,274**
	Installation material, maintenance material and network equipment	1,051	**851**
	Merchandise	923	**423**
	The decrease in gross inventory is mainly attributable to the decrease in merchandise, Network equipment and Installation and Maintenance categories. Merchandise decreased due to the write-down of the W-CDMA handset inventory. Network equipment decreased due to the Next Generation SDH rollout purchases for small build programmes and the installation and maintenance decrease is due to cable reduction.		
	The increase in write-down of inventory is mainly due to the provision for technology obsolescence and slow moving stock, as well as the provision to write off W-CMDA inventory.		
15.	**NET CASH AND CASH EQUIVALENTS**	1,282	**3,793**
	Net cash and cash equivalents attributable to continuing operations	1,804	**3,793**
	Cash shown as current assets	1,931	**3,855**
	Cash and bank balances	1,361	**828**
	Short–term deposits	570	**3,027**
	Credit facilities utilised	(127)	**(62)**
	Net cash and cash equivalents attributable to disposal groups	(522)	**–**
	Cash at banks and short-term deposits attributable to disposal groups	580	**–**
	Credit facilities utilised	(1,102)	**–**
	Undrawn borrowing facilities	6,237	**5,757**

The undrawn borrowing facilities are unsecured, when drawn bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity. At 31 March 2010, R2,000 million (2009: R3,000 million) of these undrawn facilities were committed by Telkom.

Short-term deposits

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

Borrowing powers

To borrow money, Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom to any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants of the loan facilities.

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	2009 Rm	**2010 Rm**
16. SHARE CAPITAL		
Authorised and issued share capital and share premium are made up as follows:		
Authorised	10,000	**10,000**
999,999,998 ordinary shares of R10 each	10,000	**10,000**
1 Class A ordinary share of R10	–	**–**
1 Class B ordinary share of R10	–	**–**
Issued and fully paid	5,208	**5,208**
520,783,898 (2009: 520,783,898) ordinary shares of R10 each	5,208	**5,208**
1 (2009: 1) Class A ordinary share of R10	–	**–**
1 (2009: 1) Class B ordinary share of R10	–	**–**

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

	Number of shares	**Number of shares**
Shares in issue at beginning of year	520,784,186	**520,783,900**
Shares bought back and cancelled	(286)	**–**
Shares in issue at end of year	520,783,900	**520,783,900**

Full details of the voting rights of ordinary, class A and class B shares are documented in the Articles of Association of Telkom.

Share buy-back

During the current financial year, Telkom did not buy back any ordinary shares.

During the financial year ended 31 March 2009, Telkom bought back 286 ordinary shares at a total consideration of R30,425. The shares were bought back and cancelled in order to allow Telkom shareholders to participate in the proposed unbundling of Vodacom Group on a one to one basis. This reduced the share capital by R2,860 and the retained earnings by R27,565.

	2009 Rm	**2010 Rm**
17. TREASURY SHARE RESERVE	(1,517)	**(1,171)**

The reserve represents amounts paid by Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, subsidiaries for the acquisition of Telkom's shares to be utilised in terms of the Telkom Conditional Share Plan ('TCSP').

At 31 March 2010, 7,143,700 (2009: 11,646,680) and 8,143,556 (2009: 8,143,556) ordinary shares in Telkom, with a fair value of R244 million (2009: R1,229 million) and R278 million (2009: R859 million) are held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, respectively.

The decrease in the number of treasury shares is due to 4,457,699 (2009: 1,552,029) shares that vested in terms of the TCSP during the year.

The fair value of these shares at the date of vesting was R169 million (2009: R228 million).

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for the year ended 31 March 2010

18. SHARE-BASED COMPENSATION RESERVE

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

No consideration is payable on the shares issued to employees, but performance criteria will have to be met in order for the granted shares to vest. The ultimate number of shares that will vest may differ based on certain individual and Telkom performance conditions being met. The related compensation expense is recognised over the vesting period of shares granted, commencing on the grant date.

	2009 Rm	**2010** **Rm**
The following table illustrates the movement within the share-based compensation reserve:		
Balance at beginning of year	643	**1,076**
Net increase in equity	433	**984**
Employee cost	554	**379**
Vodacom sale related transaction*	–	**951**
Vesting and transfer of shares	(121)	**(346)**
Balance at end of year	1,076	**2,060**

At 31 March 2010 the estimated total compensation expense to be recognised over the vesting period was R2,803 million (2009:R1,824 million), of which R1,330 million (2009: R554 million) was recognised in employee expenses for the respective year.

**The increase in the expense is due to changes to the vesting conditions related to the Vodacom transaction, refer to note 5.1.*

19. INTEREST-BEARING DEBT

	2009 Rm	**2010** **Rm**
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.

20. DIVIDEND PAID

	2009 Rm	**2010** **Rm**
DIVIDEND PAID	(3,336)	**(11,380)**
Dividend payable at beginning of year	(20)	**(23)**
Declared during the year: Dividend on ordinary shares:	(3,306)	**(11,275)**
Final dividend for 2008: 660 cents	(3,306)	**–**
Final dividend for 2009: 375 cents	–	**(11,275)**
Dividends paid to minority interest	(33)	**(105)**
Dividend payable at end of year	23	**23**

**The split of income tax receivable and income tax payable in 2009 was to disclose the effect of the discontinued operations.*

Notes to the condensed consolidated annual financial statements

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21. 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 from the 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; and
- 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 the MWEB Group's position as Africa's largest satellite-based internet service provider.

Based on an independent valuation, the MWEB Group does not have any significant contingent liabilities at acquisition date.
The only possible contingent liability, the AFSAT bonus scheme, was reasonably quantified and included in the statement of financial position of MWEB Group at 31 March 2010.

The purchase price of USD55 million was determined as follows:

- USD1,5 million for the Namibian business; and
- USD53,5 million for the Mauritian business

	2010 Rm
The fair value of the assets and liabilities acquired were determined as follows:	
Net assets acquired	
Cash	**83**
Trade receivables	**115**
Inventories	**18**
Property, plant and equipment	**40**
Intangible assets	**469**
Less: Deferred tax liability	**(14)**
Less: Liabilities	**(242)**
Net asset value	**469**
Goodwill on acquisition	**28**
Purchase price for net asset fair value	**497**

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

By Telkom

Multi-Links Telecommunications Limited ('Multi-Links')

Telkom acquired 75% of the issued share capital of Multi-Links Telecommunications Limited through Telkom International (Proprietary) Limited, from Kenston Investments Limited ("Kenston") on 1 May 2007. Telkom also granted Kenston the irrevocable right and option (put option) to require Telkom to acquire all of the shares held by Kenston (25% shareholding) in Multi-Links, at any time during the 90 day period following the second anniversary of the effective date. The put option was exercised on 21 January 2009 for R1,328 million (USD130 million at USD1 = R10.2188).

Notes to the condensed consolidated annual financial statements

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for the year ended 31 March 2010

	2009 Rm	**2010 Rm**
22. COMMITMENTS		
Capital commitments authorised	7,928	**7,270**
Telkom South Africa	6,991	**7,041**
Multi-Links	847	**108**
Other	90	**121**
International	35	**74**
South Africa	55	**47**
Commitments against authorised capital expenditure	1,393	**1,680**
Telkom South Africa	539	**1,568**
Multi-Links	847	**108**
Other	7	**4**
International	7	**1**
South Africa	–	**3**
Authorised capital expenditure not yet contracted	6,535	**5,590**
Telkom South Africa	6,452	**5,473**
Other	83	**117**
International	28	**73**
South Africa	55	**44**

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.

2010 FIFA World Cup commitments

The FIFA World Cup commitments is an executory contract which requires Telkom to develop the fixed-line components of the necessary telecommunications infrastructure needed to broadcast this event to the world. This encompasses the provisioning of the fixed-line telecommunications related products and services and, where applicable, the services of qualified personnel necessary for the planning, management, delivery, installation and de-installation, operation, maintenance and satisfactory functioning of these products and services. Furthermore as a National Supporter, Telkom owns a tier 3 sponsorship that grants Telkom a package of advertising, promotional and marketing rights that are exercisable within the borders of South Africa. Telkom entered into a barter transaction in return for which it has an outstanding commitment to FIFA of R210 million (2009: R243 million) as at 31 March 2010.

	2009 Rm	**2010 Rm**
23. 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.

23. CONTINGENCIES (continued)

Supplier dispute (continued)

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 from March 2001, to Telcordia. Telkom paid an amount of USD8.7 million during 2007, which was in respect of conceded claims. The amount of the claim, plus interest thereon, as at 30 June 2010 is approximately USD82.7 million. The parties have now settled the matter on the basis that Telkom will pay an amount of USD80 million, plus applicable VAT.

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.

23. CONTINGENCIES (continued)

Competition Commission ('CC') (continued)

Competition Commission referrals (continued)

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 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.

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.

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23. CONTINGENCIES (continued)

Competition Commission ('CC') (continued)

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. Phuthuma'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 R1.5 billion alternatively R3.8 billion, 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 R1.5 billion was increased to R3.7 billion. The alternative claim for damages increased to R5.5 billion. The further alternate claim for damages was increased to R1.8 billion.

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. Phuthuma has also filed a complaint against Telkom at the CC regarding a contravention of the Competition Act and the Johannesburg Stock Exchange. The CC has in the interim decided not to refer the complaint to the Competition Tribunal.

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 five 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 five others.

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24. 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 Group consists of three segments:

- The Telkom SA 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 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.

	2009 Rm	**2010** **Rm**
Business segment		
Consolidated operating revenue	36,027	**37,427**
Telkom South Africa	33,642	**33,885**
Multi-Links	1,900	**1,887**
Other		
International	194	**465**
South African	1,204	**1,316**
Elimination of intersegmental revenue	(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)**
South African	(1,919)	**(1,383)**
Elimination of intersegmental transactions	594	**(331)**
Reconciliation		
Adjusted operating profit for reportable segments	7,260	**4,646**
Gain on sale of investment	–	**18,603**
Compensation expense	–	**(951)**
Impairment of goodwill and property, plant and equipment	(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**
Other segment information		
Capital expenditure for property, plant and equipment	8,640	**4,964**
Telkom South Africa	5,866	**3,859**
Multi-Links	2,669	**1,036**
Other		
International	64	**46**
South African	41	**23**

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	2009 Rm	**2010 Rm**
24. SEGMENT INFORMATION (continued)		
Capital expenditure for intangible assets	906	**413**
Telkom South Africa	824	**369**
Multi-Links	37	**–**
Other		
International	1	**3**
South African	44	**41**
Depreciation and amortisation	4,470	**4,884**
Telkom South Africa	4,037	**4,381**
Multi-Links	296	**374**
Other		
International	39	**53**
South African	25	**48**
Elimination	73	**28**
Impairment and asset write-offs	823	**5,494**
Telkom South Africa	321	**320**
Multi-Links	462	**5,163**
Other		
International	40	**11**
South African	–	**–**
Workforce reduction expenses	8	**–**
Geographical segment		
Consolidated operating revenue	36,027	**37,427**
South Africa	34,846	**35,083**
Other African countries	1,181	**2,344**
Capital expenditure for property, plant and equipment and intangible assets	9,546	**5,377**
South Africa	6,775	**4,292**
Other African countries	2,771	**1,085**
The following is the analysis of the Group's revenue from its major products and services:	36,027	**37,427**
Subscriptions, connections and other usage	6,614	**6,813**
Traffic	15,323	**13,893**
Interconnection	2,084	**2,599**
Data	9,310	**9,998**
Sundry revenue	2,696	**4,124**

Revenue of approximately R2,861 million (2009: R2,767 million) is derived from sales to the Government of the Republic of South Africa.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

	2009 Rm	**2010** **Rm**
25. RELATED PARTIES		
Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows:		
With joint venture:		
Vodacom Group (Proprietary) Limited*		
Related party balances		
Trade receivables	61	**–**
Trade payables	(325)	**–**
Related party transactions		
Revenue	(891)	**–**
Expenses	1,533	**–**
Audit fees	2	**–**
Revenue includes interconnect fees and lease and installation of transmission lines.		
Expenses mostly represent interconnect expenses.		
**Vodacom has been disposed of, refer to note 8.2.1*		
With shareholders:		
Government		
Related party balances		
Trade receivables	386	**353**
Related party transactions		
Revenue	(2,767)	**(2,861)**
With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	52	**39**
Trade payables	(3)	**(8)**
The outstanding balances are unsecured and will be settled in cash in the ordinary course of business.		
Related party transactions		
Revenue	(446)	**(381)**
Expenses	212	**222**
Rent received	(20)	**(29)**
Rent paid	19	**22**
Key management personnel compensation:		
(Including directors' emoluments)		
Related party transactions		
Short-term employee benefits	62	**137***
Post-employment benefits	6	**7**
Equity compensation benefits	39	**21**

Terms and conditions of transactions with related parties

The sales to and purchases from related parties of telecommunication services are made at arm's length prices. Except as indicated above, outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.

**The increase in short-term employee benefits is attributable to additional appointment in key management.*

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

26. 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.

Mrs Arnold presided over a number of strategic and organisational changes, including the Vodacom transaction, the African expansion and the more recent Group restructure. Telkom is extremely grateful to Mrs Arnold and wishes to thank and acknowledge her for her leadership, dedication, contribution and service to the Telkom Group.

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 (Class A Shareholder 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 (Class A Shareholder representative) on the Telkom Board of Directors and appointed as a non-executive director for a term of three years, commencing 1 November 2009.

New York Stock Exchange listing

Given the current global economic climate and the absolute necessity for Telkom to reduce its cost profile, the Board has decided to delist from the New York Stock Exchange. Maintaining a listing in the United States of America is expensive and takes considerable management time. The methodology employed and discipline gained from Sarbanes-Oxley reporting requirements will be retained to ensure strict governance compliance and transparent financial reporting. The effective date of delisting is 27 August 2009.

Telkom is comfortable that the Johannesburg Stock Exchange provides sufficient access to capital for both South African and global investors. Telkom intends to maintain a level 1 American Depository Receipt programme to facilitate over-the-counter- trading in the United States of America.

Telkom Media (Proprietary) Limited ('Telkom Media')

On 31 August 2006 Telkom created a new subsidiary, Telkom Media (Proprietary) Limited with a Black Economic Empowerment ('BEE') shareholding. ICASA awarded Telkom Media a commercial satellite and cable subscription broadcast licence on 12 September 2007.

On 31 March 2008, the Telkom Board took a decision to substantially reduce its investment in Telkom Media and as such Telkom Media reduced its operational expenses and commitments to a minimum. Telkom Media did not meet the held-for-sale criteria at year-end as management were unable to sell the disposal group for its expected price and therefore decided to abandon it.

Telkom was approached by potential buyers and negotiations with the potential buyer were concluded. On 4 May 2009, Telkom subsequently sold its 75% interest in Telkom Media to Shenzhen Media South Africa (Proprietary) Limited for a nominal amount.

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 of R25,688 million.

Refer to note 8.2.1.

Notes to the condensed consolidated annual financial statements

(continued)

for the year ended 31 March 2010

27. 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.

Telkom concluded a roaming agreement with MTN South Africa

On 14 April 2010, Telkom announced that in line with its mobile strategy it concluded a five year national roaming agreement with MTN South Africa in terms of which Telkom and its customers will have national access to MTN's 2G and 3G network throughout South Africa. Furthermore Telkom placed orders to build 2,000 new base stations in selected high density areas over the next two years.

The capital programme for mobile related investments over the next five years is expected to be approximately R6 billion. The conclusion of a roaming agreement with MTN South Africa enhances Telkom's ability to offer Telkom customers extensive national mobile coverage from day one of launch and accordingly is key to the delivery of a successful mobile strategy.

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 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.

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

Dr Ekwow Spio-Garbrah resigned as a non-executive director (Class A Shareholder representative) of the Board of Telkom with effect from 1 May 2010.

Joint announcement of Telkom Board and GCEO

On 4 June 2010, the Telkom Board and the Group Chief Executive Officer Mr Reuben September announced his retirement from his position and resignation of his directorship at the expiry of his contract in November 2010. Reuben September has agreed with the Telkom Board to step down as GCEO and resign as a director from 7 July 2010. He will assume a consulting role until 1 November 2010.

During this period Mr Reuben September led the disposal of the 50% interest in Vodacom, the restructure of the Group, launch of its Data Centre Operations branded as Cybernest and the decision to take Telkom into the mobile sector later this year. Telkom wishes to record its appreciation and thanks to Mr Reuben September for his leadership and valuable contribution over all these years.

Appointment of Acting GCEO

On 9 July 2010, The Telkom Board has announced that it has commenced a process to appoint a new Group Chief Executive Officer. In the interim Mr Jeffrey Hedberg has been appointed as Acting GCEO.

The Telkom Board believes that these arrangements provide leadership, continuity and stability at an important time given a number of key strategic and operational deliverables.

A successor to Mr September will be announced in due course.

Resignation announcement of GCFO

On 13 July 2010, Mr Peter Nelson has informed the Board of Directors of his resignation as director and Group Chief Financial Officer with effect from 9 October 2010.

The Board thanks him for his valuable contribution to Telkom and wishes him well in the future.

Voluntary severance packages

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

The move is aimed at enabling Telkom to achieve its business objectives by optimising management levels, improving the competitiveness of the management force while positively impacting the cost base. The ultimate Group-wide target is to improve management effectiveness by aligning itself with industry and South African best practices.

The Managing Director of Telkom International, Thamsanqa (Thami) Msimango, and Michael (Naas) Fourie, who was the Chief of Strategy, had opted to accept the offer of the voluntary severance package.

27. SUBSEQUENT EVENTS (continued)

Bihati Solutions (Proprietary) Limited

The matter arises from a tender ('the 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 120 days or the purported extension granted by the shortlisted bidders. An award was subsequently made during November 2008 after the validity period had expired. Telkom had obtained an opinion from senior counsel after it received challenges from the unsuccessful bidders regarding the validity of the award made under the tender. As a consequence of counsel's opinion, the Telkom Board accepted a recommendation from its Executive Committee to apply to the High Court to review and set aside the aforesaid award, made after the validity period had expired, which was approved by the Telkom Board.

On 7 May 2010, Bihati served an application for the review and setting aside of a decision by the Telkom Board to apply to the High Court for the review and setting aside of the earlier decision by Telkom to award a tender to Bihati and five other service providers under the tender.

Telkom has instructed its attorneys to oppose the Bihati application.

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.

Special note regarding forward-looking statements

Many of the statements included in this annual report, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward-looking statements. All statements, other than statements of historical facts, including, among others, statements regarding our mobile and other strategies, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward looking statements can generally be identified by the use of terminology such as 'may', 'will', 'should', 'expect', 'envisage', 'intend', 'plan', 'project', 'estimate', 'anticipate', 'believe', 'hope', 'can', 'is designed to' or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward-looking.

These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations are those risks identified in the Sustainability report – Enterprise Risk Management – Risk factors, including, but not limited to, the effect of global economic and financial conditions on us, any changes to our mobile strategy and our inability to successfully implement such strategy and organisational changes thereto, our ability to successfully reduce exposure to risk in Nigeria; increased competition in the South African communications and data communications markets; our ability to implement our strategy of transforming from basic voice and data connectivity to fully converged solutions, developments in the regulatory environment; continued mobile growth and reductions in Telkom's net interconnect margins; Telkom's ability to expand its operations and make investments and acquisitions in other African countries and the general economic, political, social and legal conditions in South Africa and in other countries where Telkom invests; our ability to improve and maintain our management information and other systems; our ability to attract and retain management, key personnel and partners; our negative working capital; changes in technology and delays in the implementation of new technologies; our ability to reduce theft, vandalism, network and payphone fraud and lost revenue to non-licensed operators; the amount Telkom is ultimately required to pay to Telcordia Technologies Incorporated; the outcome of regulatory, legal and arbitration proceedings, including tariff approvals, and the outcome of Telkom's hearings before the Competition Commission and others; any requirements that we unbundle the local loop, our ability to negotiate favourable terms, rates and conditions for the provision of interconnection services and facilities leasing services or if ICASA finds that we have significant market power or otherwise imposes unfavourable terms and conditions on us; our ability to implement and recover the substantial capital and operational costs associated with carrier preselection, number portability and the monitoring, interception and customer registration requirements contained in the South African Regulation of Interception of Communications and Provisions of Communication-Related Information Act and the impact of these requirements on our business; Telkom's ability to comply with the South African Public Finance Management Act and South African Public Audit Act; fluctuations in the value of the Rand and inflation rates; the impact of unemployment, poverty, crime, HIV infection, labour laws and labour relations, exchange control restrictions and power outages in South Africa; and other matters not yet known to us or not currently considered material by us.

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

Notice of annual general meeting

Telkom SA Limited
(Incorporated in the Republic of South Africa)
(Registration number 1991/005476/06
(JSE share code: TKG)
ISIN: ZAE000044897)
('Telkom' or the 'company')

Notice is hereby given that the eighteenth annual general meeting of members will be held on Tuesday, 24 August 2010 in The Bill Gallagher Room, Sandton Convention Centre, Maude Street, Sandton, South Africa at 10:00 to conduct the following business:

1. To receive and consider the annual financial statements for the year ended 31 March 2010.
2. To elect PCS Luthuli as director who in terms of the articles of association retires by rotation. Being eligible, PCS Luthuli is available for re-election. His profile may be found on page 10 of the abridged annual report.
3. To re-appoint Ernst & Young Inc as auditors of the company, to hold office until the conclusion of the next annual general meeting of the company and to note that the individual registered auditor who will undertake the audit during the financial year ending 31 March 2011 is Mr R Hillen.

Additional disclosures required in terms of the JSE Listings Requirements
Directors and management – refer to pages 9 to 12 of the abridged annual report
Major shareholders – refer to page 7 of the full annual report available at www.telkom.co.za
Directors' interests in securities – refer to page 203 of the full annual report available at www.telkom.co.za
Share capital of the company – refer to page 39 of the abridged annual report

Directors' responsibility statement
The directors, whose names appear on pages 9 to 11 of the abridged annual report collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this special resolution contains all information required by the Listings Requirements of the JSE.

Litigation statement
The directors, whose names appear on pages 9 to 11 of the abridged annual report , are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened other than what has been disclosed on page 42, that may have or have had in the previous twelve months a material effect on the group's financial position.

Material change
Other than the facts and developments reported on in the annual report which was posted to shareholders with this notice, there have been no material changes in the affairs or financial position of the company and its subsidiaries since the date of signature of the annual financial statements and the date of this notice

VOTING AND PROXIES
Ordinary shareholders are entitled to attend, speak and vote at the annual general meeting.

Ordinary shareholders may appoint a proxy to attend, speak and vote in their stead. A proxy need not be a shareholder of the company.

Shareholders holding dematerialised shares, but not in their own name must furnish their Central Securities Depositary Participant (CSDP) or broker with their instructions for voting at the annual general meeting. If your CSDP or broker, as the case may be, does not obtain instructions from you, it will be obliged to act in terms of your mandate furnished to it, or if the mandate is silent in this regard, complete the relevant form of proxy attached.

Unless you advise your CSDP or broker, in terms of the agreement between you and your CSDP or broker by the cut off time stipulated therein, that you wish to attend the annual general meeting or send a proxy to represent you at this annual general meeting, your CSDP or broker will assume that you do not wish to attend the annual general meeting or send a proxy.

Notice of annual general meeting *(continued)*

If you wish to attend the annual general meeting or send a proxy, you must request your CSDP or broker to issue the necessary letter of authority to you. Shareholders holding dematerialised shares in their own name, or holding shares that are not dematerialised, and who are unable to attend the annual general meeting and whish to be represented thereat, must complete the relevant form of proxy attached in accordance with the instructions therein and lodge it with or mail it to the transfer secretaries.

Forms of proxy should be forwarded to reach the transfer secretaries, Computershare Investor Services (Pty) Limited by no later than 10:00 on Monday, 23 August 2010.

The completion of a form of proxy will not preclude a shareholder from attending the annual general meeting.

By order of the board

Per: ML Lephadi
Group Secretary

22 July 2010

Form of proxy

Telkom SA Limited
(Incorporated in the Republic of South Africa)
(Registration number 1991/005476/06
(JSE share code: TKG)
ISIN: ZAE000044897)
('Telkom' or the 'company')

(For completion by certificated shareholders and own-name dematerialised shareholders. Members entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak at the annual general meeting in his stead. Such proxy/ies need not be a member/s of Telkom.)

For use at the seventeenth annual general meeting of shareholders of Telkom to be held on Tuesday, 24 August 2010 in The Bill Gallagher Room, Sandton Convention Centre, Maude Street, Sandton, South Africa, South Africa at 10:00

I/We ______________________________ (name in BLOCK LETTERS)

Of ______________________________ (address in BLOCK LETTERS)

Being a member/members of the company holding ______________________________ ordinary shares in the company,

do hereby appoint: ______________________________

of ______________________________

or failing him/her ______________________________

of ______________________________

or failing him/her, the Chairman of the annual general meeting as my/our proxy to represent me/us at the annual general meeting to be held on Tuesday, 24 August 2010 at 10:00 or at any adjournment thereof, as follows:

	For	Against	Abstain
1. To receive and adopt the annual financial statements for the year ended 31 March 2010			
2. To re-elect Mr PCS Luthuli as director in terms of the company's articles of association			
3. To re-appoint Ernst & Young Inc as auditors of the company, to hold office until the conclusion of the next annual general meeting			

and generally to act as my/our proxy at the said annual general meeting.

(Indicate with an "x" or the relevant number of shares, in the applicable space, how you wish your votes to be cast.)

Unless otherwise directed the proxy will vote as he/she thinks fit.

Signed at ____________ this ____________ day of ____________ 2010

Signature of member ____________ assisted by (where applicable) ____________

Please read the notes on the reverse side hereof.

Notes

1. A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak in his/her stead at the annual general meeting. A proxy need not be a member of the company.
2. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space(s) provided, with or without deleting "the Chairman of the annual general meeting", but any such deletion or insertion must be initialled by the shareholder. Any insertion or deletion not complying with the aforegoing will be declared not to have been validly effected. The person whose name stands first on this form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. In the event that no names are indicated, the proxy shall be exercised by the Chairman of the annual general meeting.
3. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" or the relevant number of votes exercisable by that shareholder in the appropriate box provided. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above will be deemed to authorise the proxy to vote or abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of votes exercisable by the shareholder or by his/her proxy
4. To be effective, completed forms of proxy must be lodged with the company's South African transfer secretaries, Computershare Investor Services (Proprietary) Limited, no less than 24 hours before the time appointed for the holding of the annual general meeting, excluding Saturdays, Sundays and public holidays. As the annual general meeting is to be held at 10:00 on Tuesday, 24 August 2010 forms of proxy must be lodged no later than 10:00 on Monday, 23 August 2010.
5. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms hereof.
6. The Chairman of the annual general meeting may reject or accept any form of proxy which is not completed and/or received other than in compliance with these notes.
7. Any alteration to this form, of proxy other than a deletion of alternatives, must be initialled by the signatory.
8. Documentary evidence establishing the authority of the person signing this form of proxy in a representative or other legal capacity must be attached to this form of proxy unless previously recorded by the Company or the transfer secretaries or waived by the Chairman of the annual general meeting.
9. Where there are joint holders of shares:
   - any one holder may sign this form of proxy; and
   - the vote of the senior shareholder (for that purpose, seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
10. This form of proxy is not for completion by those shareholders who have dematerialised their shares (other than those whose shareholding is recorded in their own name in the sub-register maintained by their Central Securities Depository Participant ("CSDP"). Such shareholders should provide their CSDP, broker or nominee with their voting instructions.

South African transfer secretaries

Computershare Investor Services (Proprietary) Limited
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Administration

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