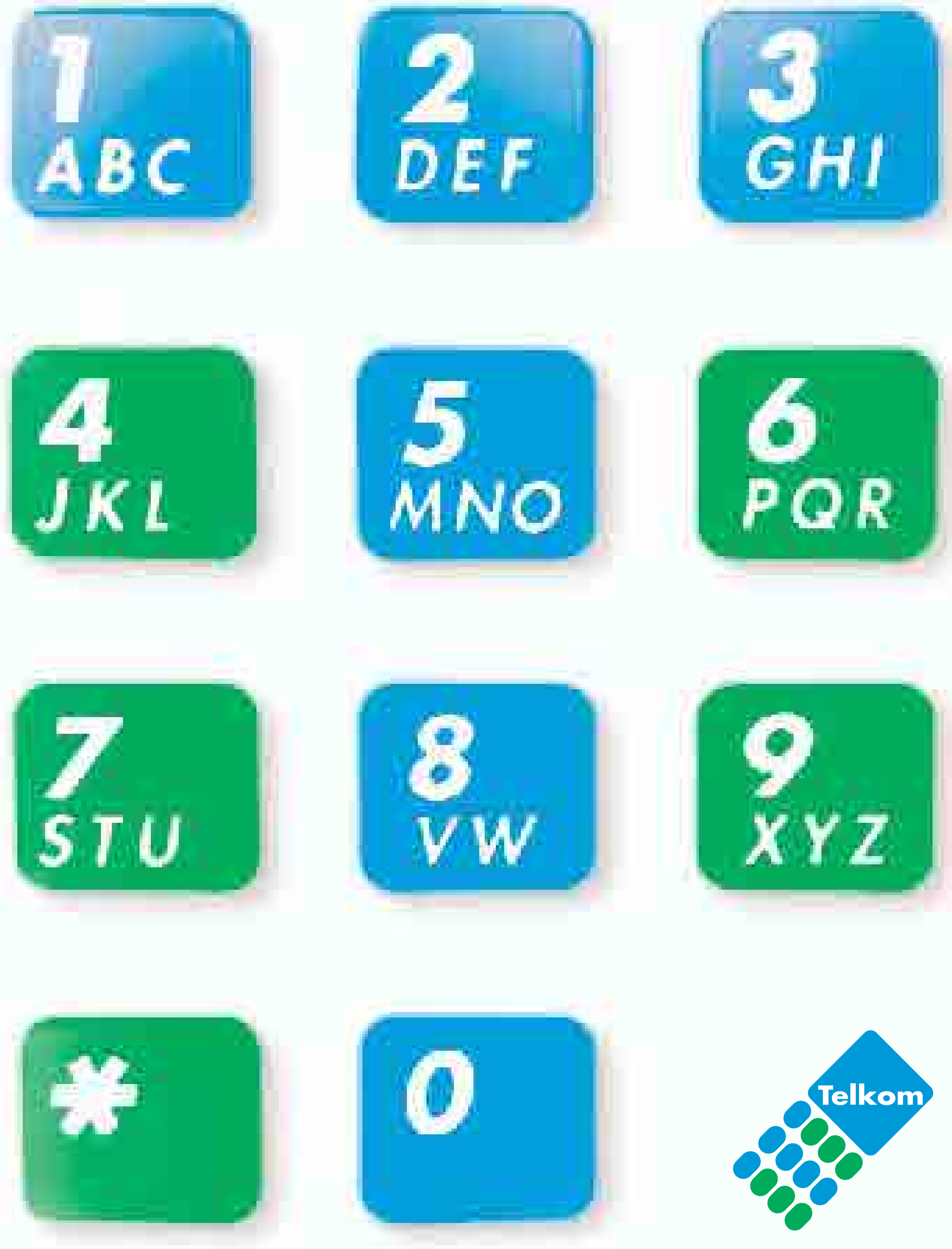
Telkom SA Limited

Group Annual Report 2004



Telkom

Telkom SA Limited Group Annual Report 2004

Group Annual Report 2004

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www.telkom.co.za

@ A GLANCE

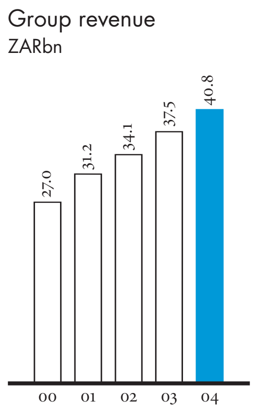
Our vision is to be a world-class communications group

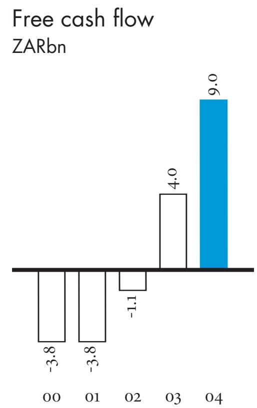
For the Telkom Group the 2004 financial year has been one of great strides taken and substantive progress made.

This concise overview – of our achievements, strengths, strategic intent and focus areas for 2005 – shows how we have moved closer to realising our vision in all avenues of our business.

Financial performance @ a glance

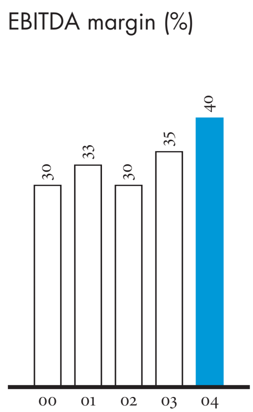
Solid group revenue growth of 9%

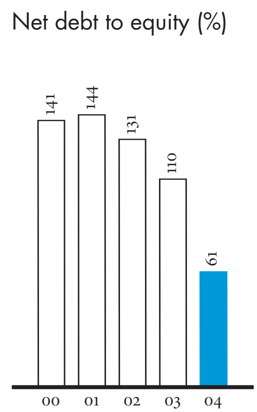




Strong free cash flow generation

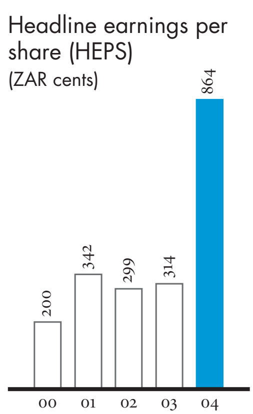
Continued EBITDA margin expansion





Strengthened balance sheet

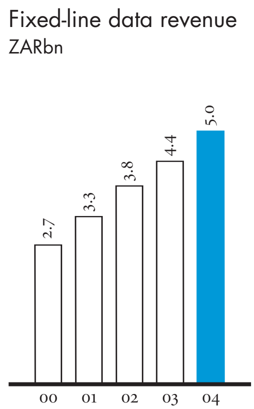
Headline earnings per share growth of 175%

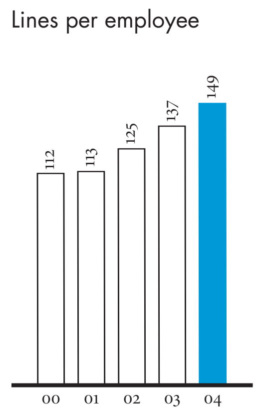


- Final dividend payment of 110 cents per share
- Total dividend for the year of 200 cents per share

Operational performance @ a glance

Fixed-line data revenue growth of 14%

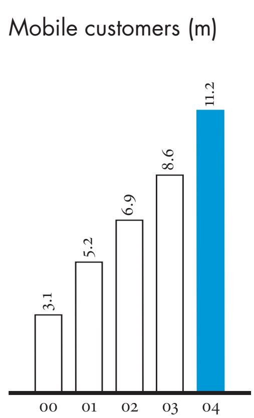




Improved fixed-line efficiencies

- ADSL customer base expanded 661% to 20,313
- Value-added fixed-line voice packages penetrate 64% of residential customer base
- 8.5% reduction in fixed-line headcount (excluding subsidiaries)
- Launch of new fixed-line calling packages such as Xtratime

Mobile customer growth of 30%



- Mobile gross connections of six million compared to four million in prior year
- Vodacom maintained market leadership position in South Africa, with 54% market share
- Other African countries mobile customer growth of 93%
- Vodacom data revenue growth of 59% to R1 billion

Telkom Group @ a glance

Group structure

Telkom SA Limited is one of the largest companies registered in the Republic of South Africa and is the largest services provider on the African continent based on operating revenue and assets. Telkom offers fixed-line voice and data services, branded as Telkom, and mobile communications services through a 50% shareholding in the joint venture, Vodacom, a company incorporated in the Republic of South Africa operating in South Africa, Tanzania, Lesotho, Democratic Republic of Congo (DRC) and Mozambique. Vodacom is a joint venture investment with Vodafone Group Plc (35%) and VenFin Limited (15%).

Telkom SA Limited

Vodacom

Vodacom Group (Proprietary) Limited is a leading mobile communications company providing a GSM (Global System for Mobile Communications) service to 11.2 million customers in South Africa, Tanzania, Lesotho, the DRC and Mozambique. Vodacom is South Africa's leading cellular network with an estimated 54% market share.

50% shareholding

Telkom Directory Services

Telkom Directory Services (Proprietary) Limited (TDS) started operations in 1997, as a result of a joint venture between Telkom SA Limited and Maister Directories' directory businesses. TDS provides complete Yellow and White page directory services, an electronic yellow pages service, 10118 "The Talking Yellow Pages", and an on-line web directory service.

64.9% shareholding

Swiftnet

Swiftnet (Proprietary) Limited started operations in 1995 as a Telkom initiative and trades under the name FastNet Wireless Service. FastNet is a wireless network providing a synchronous wireless access on Telkom's X.25 network, Saponet-P, to its customer base. Services include retail credit card and cheque terminal verification, telemetry, security and fleet management.

100% shareholding

Mobile

Fixed-line

Shareholders

Government

The Government of the Republic of South Africa is the majority shareholder of Telkom.

38.3% shareholding

Thintana

Thintana Communications LLC is a consortium consisting of SBC Communications Inc and Telekom Malaysia Berhad, operating through a USA limited liability company, Thintana Communications LLC, which is registered in the state of Delaware in the United States of America. SBC Communications and Telekom Malaysia hold 60% and 40% respectively of the 15.1% investment in Telkom.

Thintana Communications sold a 14.9% interest in Telkom in June 2004, reducing its 30.0% shareholding as at March 31, 2004 to 15.1%.

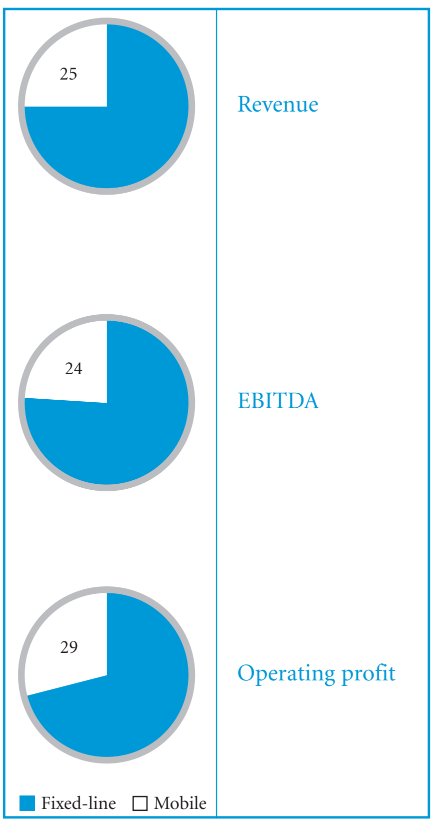
15.1% shareholding

Freefloat

Thintana Communications sold a 14.9% interest in Telkom in June 2004. As a result the freefloat increased from 31.7% as at March 31, 2004 to 46.6% at the date of this report.

46.6% shareholding

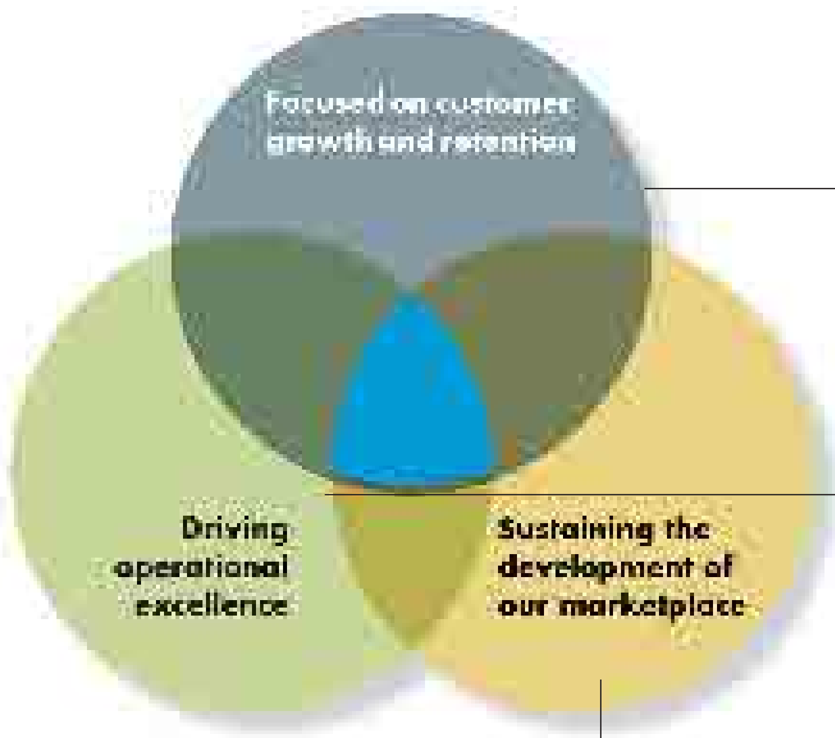
Segment contribution (%)



Key facts

- Listed on the JSE Securities Exchange, South Africa and the New York Stock Exchange
- Incumbent fixed-line operator in South Africa
- Leading mobile operator in South Africa
- R40.8 billion (USD 6.5 billion) group revenue
- R9.1 billion (USD 1.4 billion) group operating profit
- R53.0 billion (USD 8.4 billion) group total assets
- 4.8 million fixed-line customers in South Africa
- 142,208 internet customers in South Africa
- 20,313 ADSL customers in South Africa
- 9.7 million mobile customers in South Africa
- 1.5 million mobile customers in other African countries

Strategic direction @ a glance



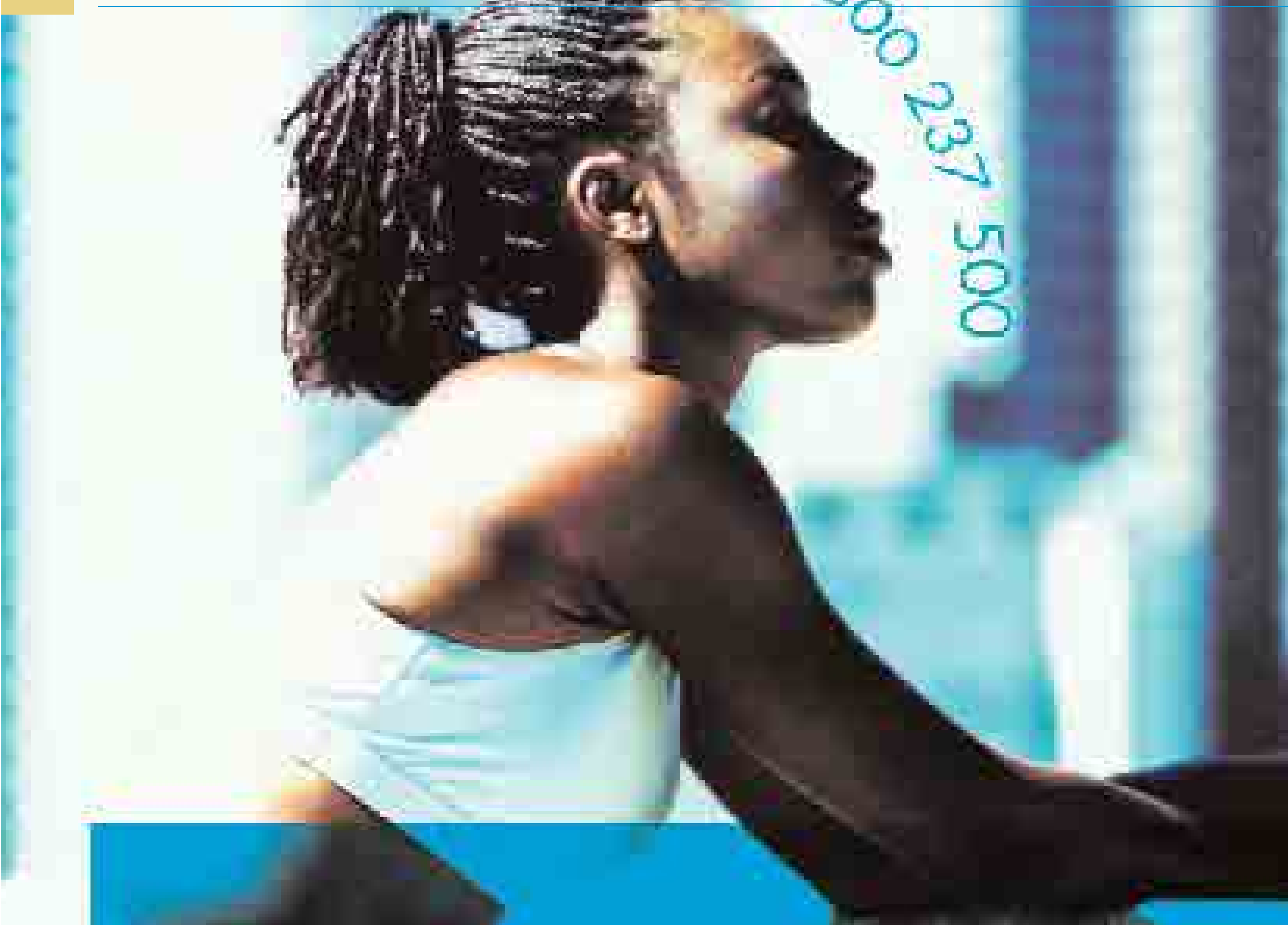
By investing smartly to save money and grow the business, coupled with ongoing efficiencies and productivity, we aim to maximise free cash flow and improve our financial flexibility while increasing our returns to shareholders.

- Competing aggressively to win and retain customers
- Relevant responses to evolving customer needs
- Constant re-invention of product and service offerings

- Getting the best out of our people
- Fully utilising our world-class assets
- Optimising our financial flexibility

- Investing in our people
- Investing in our communities
- Driving transformation

Focusing on customer growth and retention

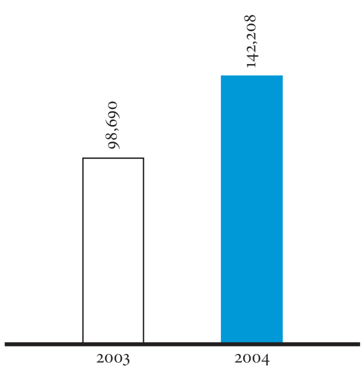


From ordinary telephone line to multi-tasking access medium. From dial-up to always-available connection. This is the promise of ADSL, a world-class communication solution that opens yet another door onto a connected world.

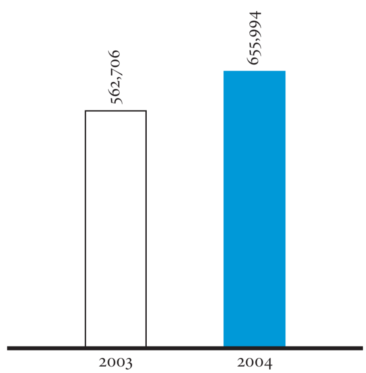
To strengthen our market leadership we anticipate our customers' evolving needs, designing solutions to win and keep them on our networks.

Our intense focus on the customer in 2004 has been crucial in stemming the loss of fixed-line customers and traffic through aggressively marketing the fixed-line price competitive advantage, extensive connection campaigns, increasing the convenience of ordering and paying and driving greater penetration of value-added services.

Internet subscribers



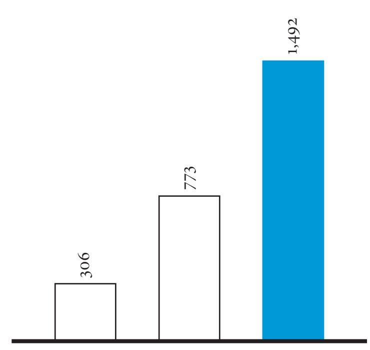
ISDN channels



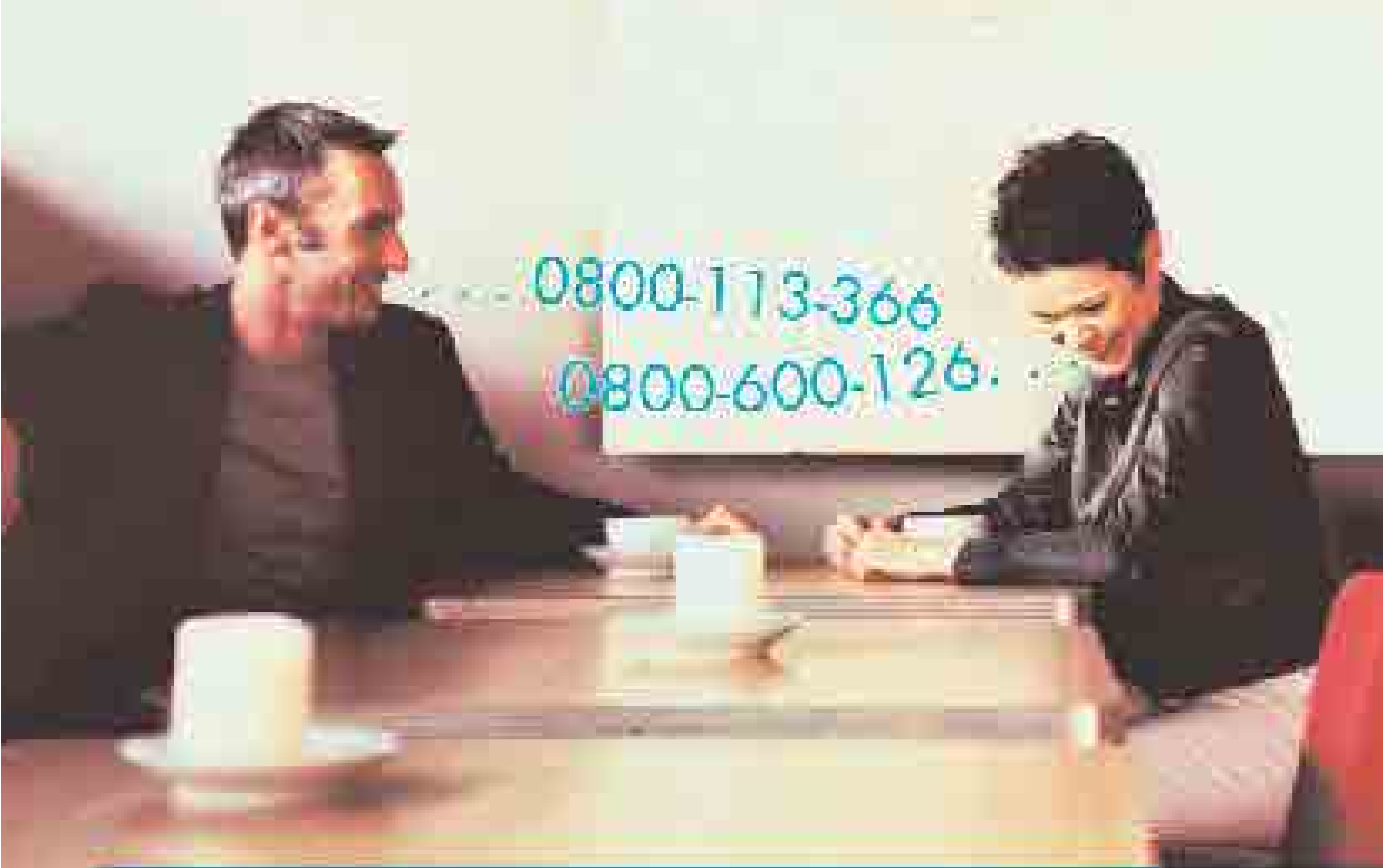
Fixed-line data revenue growth of 14% was achieved by driving data penetration of value-added services in the consumer market and small and medium business markets.

Vodacom, our mobile business, grew customers by 30% to 11.2 million in 2004, with the highest level of gross connections and lowest level of contract churn ever in the South African market. The South African growth was supported by an aggressive roll-out in the DRC and the launch of Vodacom Mozambique in December 2003.

Other African mobile customers (thousands)



Driving operational excellence

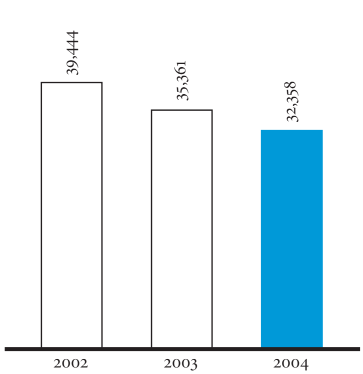


Being there for you. Using the language of your choice to introduce you to products and services that will suit your lifestyle. This is what customers can look forward to when they visit Telkom Direct – our world-class retail outlets.

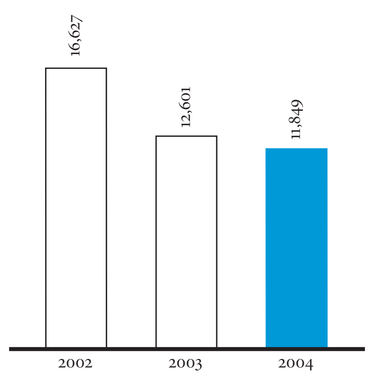
To drive profitability requires that we stay efficient and productive in the fulfilment of our customer needs, applying excellence to every aspect of our business.

In the fixed-line business, we have systematically identified areas where efficiencies and productivity can be enhanced, and successfully implemented wide-ranging programmes to reduce costs, boost employee efficiency and entrench a culture of excellence across all operations. These initiatives continue to be drawn together in the phased introduction of sophisticated Operating Support Systems (OSS), to form a cost-efficient technological backbone to support the full and integrated utilisation of our world-class assets and people.

Fixed-line employees
March 31



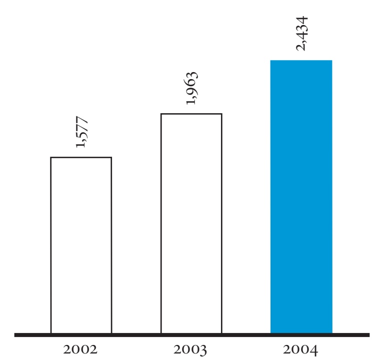
Number of vehicles
March 31



The field force team, which delivers service to customers, achieved significant savings through a 6% reduction of the vehicle fleet, reduced dispatches brought about by a reduction in repeat faults, reduced theft and breakage incidents and achieved a 16% reduction in the cost of fixed-line materials and maintenance.

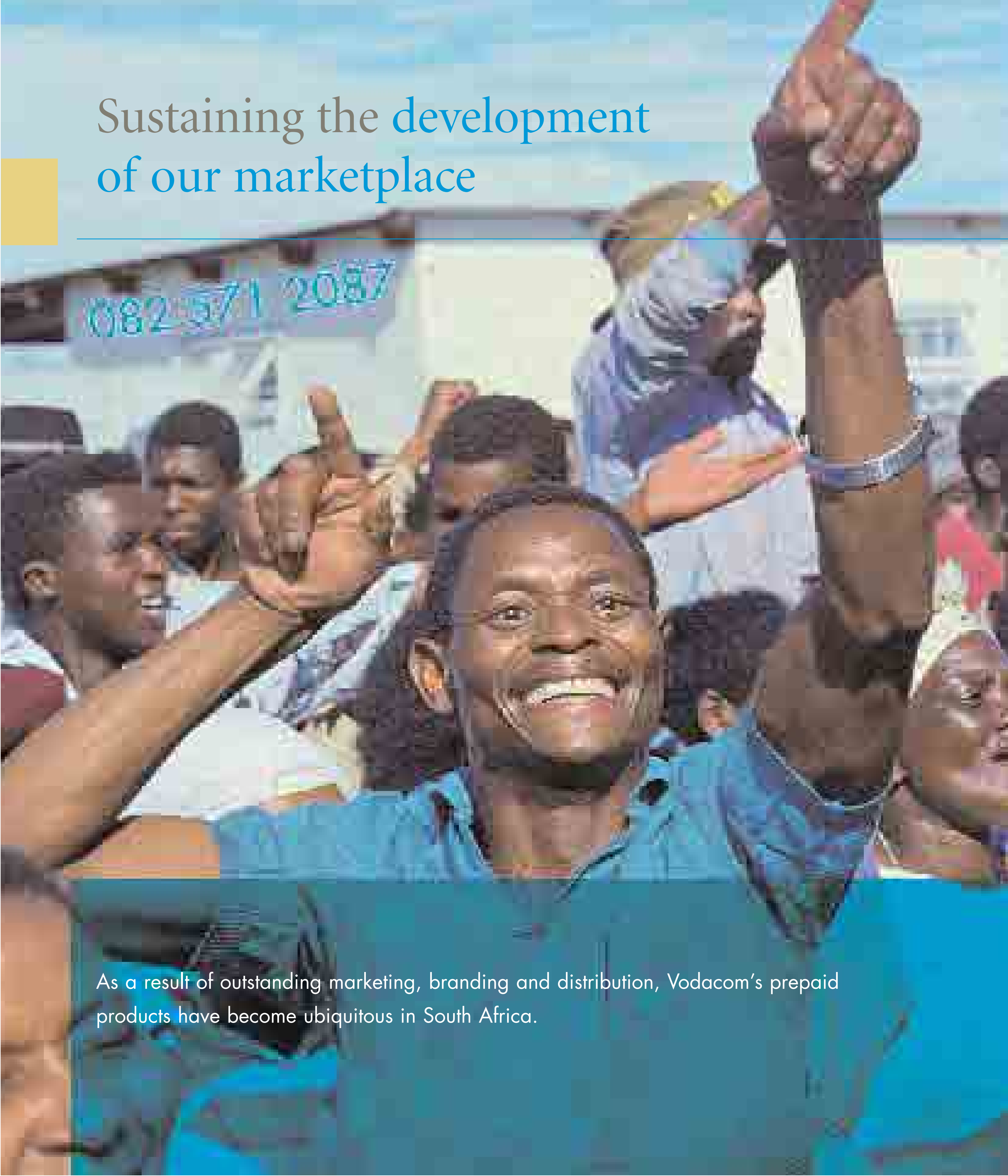
Telkom continues to focus on optimising its property portfolio through the relocation of employees from leased properties to owned properties and improvements in overall space utilisation.

Mobile customers per employee
March 31



Vodacom’s employee productivity shows marked improvement in all its operations as measured by customers per employee.

Sustaining the development of our marketplace



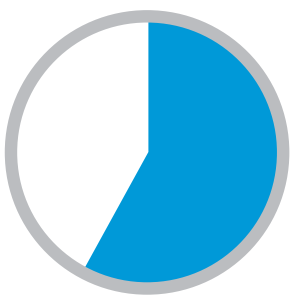
As a result of outstanding marketing, branding and distribution, Vodacom's prepaid products have become ubiquitous in South Africa.

To support sustainable growth in the future requires that we play a leading role in driving the socio-economic development of our marketplace.

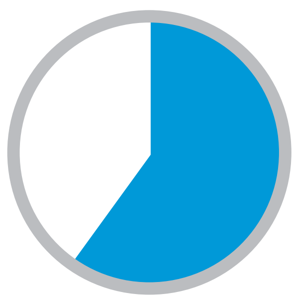
Our values are the glue that hold the people of Telkom together, that distinguish us from our competitors – present and future:

- *We value our people and their diversity*
- *We are performance driven*
- *We are customer focused*
- *We create value for our shareholders*
- *We are a model corporate citizen*
- *We act with integrity in everything we do*

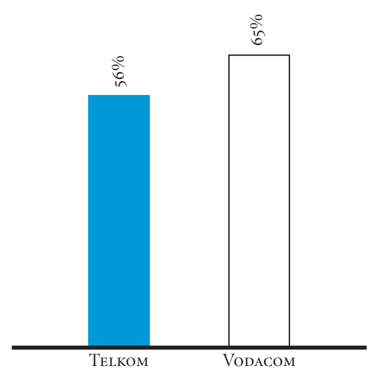
Telkom BEE procurement spend
At March 31, 2004



Vodacom BEE procurement spend
March 31, 2004



Employment equity
At March 31, 2004



Procurement forms the cornerstone of the Group's BEE strategy. The Group's BEE procurement programme is primarily based on leveraging its buying power to empower small and medium businesses. Telkom and Vodacom directed R4.6 billion and R1.3 billion respectively in the 2004 financial year to BEE suppliers. The Group has also made strong progress in employment equity, training and development and social investment.

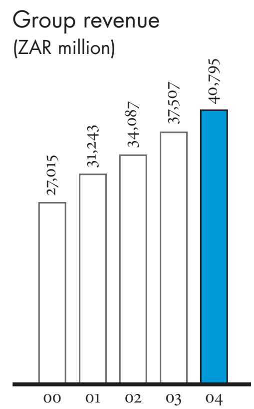
The Telkom Group embraced the need to proactively implement affirmative action in 1993, long before the promulgation of the Employment Equity Act, 55 of 1998.

Looking forward to 2005

Deliver solid growth in group revenue

How?

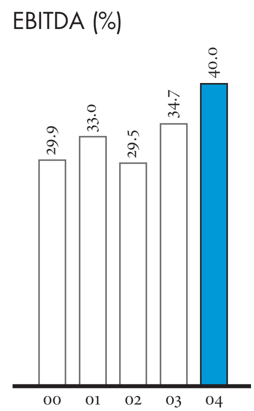
We aim to offset voice volume pressure and low tariff increases by aggressively growing our fixed-line data business and mobile customer bases in South Africa and other African countries.



Continue expanding in EBITDA margins

How?

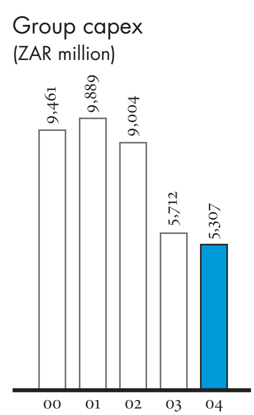
We achieved our March 2007 objective of reaching an EBITDA margin of 40% in March 2004. Two percentage points of the expansion in margin was attributed to the release of the Telcordia provision and the improvement in the Rand. We aim to continue making incremental improvements in the margin from the adjusted base of 38% through further efficiencies.



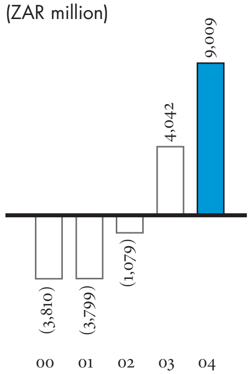
Contain capital spending

How?

While we intend containing our group capital expenditure in the range of 12% – 15% of group revenue, a meaningful amount of capital spend will be allocated to support the future growth potential of the fixed-line data and mobile markets.



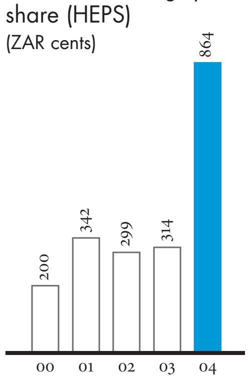
Operating free cash flow
(ZAR million)



Maximise operating cash flow generation

How?
Cash flow for 2005 will be impacted by cash taxes and higher capital spend in the fixed-line business. However, margin expansion and effective working capital management will ensure we continue to maximise our free cash flows.

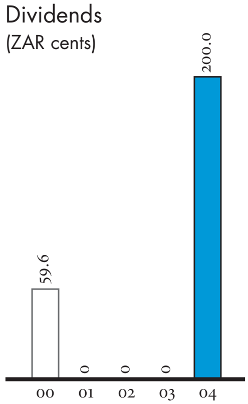
Headline earnings per share (HEPS)
(ZAR cents)



Deliver solid earnings growth

How?
We do not anticipate the exceptional earnings growth of 2004 to be repeated in 2005, but we aim to deliver solid earnings growth by continuing to grow group operating profits and by a lower interest expense.

Dividends
(ZAR cents)



Deliver consistent growth in shareholder returns

How?
In 2004 we strengthened our balance sheet and delivered a net debt to equity ratio of 60.6% – within our target range of 50% – 70%. In 2005 we anticipate lower debt repayments and returning a growing amount of cash to shareholders.

To us

you are more than a number.

To you

we will be more than a phone company.

DEAR SHAREHOLDER

From the Chairman and Chief Executive Officer

"The level of performance achieved by the Telkom Group in the past year certainly warranted our high expectations. We trust we have measured up as well in the assessment of all our shareholders."

Nomazizi Mtshotshisa
Chairman of the Board
Sizwe Nxasana
Chief Executive Officer

From the Chairman and Chief Executive Officer

Dear shareholder,

In our outlook for the Group a year ago, we expressed confidence in our ability to sustain the high level of commitment to continual improvement demonstrated the year before. We anticipated that this dedication would accelerate our progress towards our principal objective – to be a world-class competitor.

In our first full year as a listed company, we proved to be a credible contender on two of the world's most stringently regulated exchanges. We demonstrated our ability to defend and grow our market leadership, in balance with our commitments as an active and responsible corporate citizen. And we delivered healthy returns to the investors that backed our vision and ability to realise such returns.

The level of performance achieved by the Telkom Group in the past year certainly warranted our high expectations. We trust we have measured up as well in the assessment of all our shareholders.

Performance overview

We are pleased to report on substantive progress across the Group for the year to March 31, 2004.

In our fixed-line business, we expanded the EBITDA margin seven percentage points by aggressively defending revenues and systematically streamlining the organisation, while our mobile business continued to deliver robust growth by winning customers in the local market and in other African countries. The resulting 123% growth in operating free cash flow allowed us to repay debt, invest capital in driving growth and support ongoing cost savings.

The positive momentum from these efforts, reinforced by a strengthened capital structure and a relatively buoyant economic environment, enabled the Group to meet and exceed its performance targets for the year, and deliver on its core strategic objective of returning value to shareholders.

Economic overview

Macro economic conditions remained generally favourable during the year. The South African economy posted modest GDP growth of 1.9% during 2003. The outlook for GDP growth is fairly positive with domestic expenditure remaining buoyant, resulting in more income becoming available for discretionary telecommunication spend.

Telkom's annual tariffs are set in January each year based on annual inflation increases in September. The Statistics South Africa error in calculating inflation in 2003 and the subsequent downward revision of 1.3% was unfortunate as Telkom had concluded a three-year wage agreement with the unions based on higher expectations for inflation.

The value of the Rand appreciated by 26.4% against the Dollar in the year ended March 31, 2004, to an average of R7.17 per US$1.00 from R9.74 per US$1.00 in the prior year. While this appreciation negatively impacted Telkom's international interconnection revenues and the translation of Vodacom's revenues from international operations, it resulted in savings in foreign denominated operating and capital expenditure, and contributed to improving operating margins. Although the strong Rand contributed to operating profit, it negatively impacted net reported earnings as a result of the R776 million loss on the net fair value and exchange losses on financial instruments.

Financial results

The Group has delivered a strong set of financial results in the year to March 31, 2004 demonstrating management's commitment to meeting targets. Group operating revenue increased 8.8% to R40,795 million driven by the 23.2% increase (after inter-segmental eliminations) in mobile revenue, and group operating profit increased 39.5% to R9,088 million. Group EBITDA margins during the same period expanded to 40.0% compared to 34.7% in the prior period, primarily as a result of the strict cost discipline in the fixed-line business, the release of the Telcordia provision of R356 million (including interest and legal fees) and the strengthening of the Rand.

Headline earnings per share increased 175.0% to 863.6 cents per share and basic earnings per share grew 177.5% to 812.0 cents. Strong earnings growth was delivered from the 39.5% increase in operating profit and a 21.4% reduction in finance charges. Included in finance charges are net losses of R776 million (2003: R1,285 million) arising from measuring derivatives at fair value and the relative volatility of the domestic currency during the period.

Cash from operating activities increased 42.4% to R13,884 million. This adequately covered cash requirements for group capital expenditure of R5,187 million and facilitated the repayment of R6,374 million in net debt. Net debt decreased 33.8% to R13,362 million. The balance sheet was considerably strengthened with group net debt to equity of 60.6% at March 31, 2004 (2003: 109.9%), within management's stated target range of 50% to 70%.

Dividends

The Telkom Board of Directors approved a final dividend of R613 million or 110 cents per share on June 3, 2004. A special dividend of R501 million, or 90 cents per share, was paid on December 29, 2003, bringing the total dividend for the 2004 financial year of R1,114 million or 200 cents per share.

The Board aims to pay a progressively increasing annual dividend. The level of the dividend will be based on a number of factors including the assessment of financial results, the Group's debt level, interest coverage and future growth prospects including internally generated cash flows. Going forward, the Group will only pay an annual dividend.

Strategic overview

The good progress made across the Group in the year to March 31, 2004 was driven by a focused strategy to create value for shareholders, comprising of three key imperatives:

- An intense focus on customer growth and retention
- Driving operational excellence
- Sustaining market place development

In the fixed-line business, we have concentrated on improving competitiveness by continuing to entrench efficiencies. In the past year, we have systematically identified areas where efficiencies and productivity can be enhanced, and successfully implemented wide-ranging programmes to reduce costs, boost employee efficiency and entrench a culture of excellence across all operations. These initiatives continue to be drawn together in the phased introduction of sophisticated Operating Support Systems (OSS), to form a cost-efficient technological backbone to support the full and integrated utilisation of our world-class assets and people.

All these efforts culminated in considerable improvements in service delivery and an enhanced customer experience. The integration of our operating systems is yielding an increasingly holistic view of our customers across all our services, providing a strong basis for a responsive relationship, and ensuring ongoing improvements in service delivery. We are improving at anticipating customer needs and meeting them with innovative products and services that are relevant and reliable, backed by high levels of customer service and delivered through a convenient interface. This intense focus on the customer has been crucial in stemming the loss of fixed-line customers and traffic by aggressively moving into new market areas with innovative, value-added products and services.

Our efforts were rewarded by solid growth in fixed-line data services revenue of 13.5% (before inter-segmental eliminations), which contributed 11.7% (after inter-segmental eliminations) of overall Group revenues. This result was achieved by driving data adoption in consumer and small and medium business markets, and increasing the penetration of value-added data services among residential and business customers. The strong growth in ISDN of 16.5% to 655,994 lines and the increased reach to over 20,000 ADSL customers were supported by 44.1% growth in internet subscribers to 142,208. The number of ADSL-enabled exchanges almost doubled to 304 during the year and covers approximately 61% of the exchanges.

Telkom's efforts to attain world-class levels of efficiency, productivity and customer care have enhanced our brand and garnered national recognition. In the benchmark 2003 Sunday Times/Markinor Top Brands Survey, Telkom posted the strongest results overall first in the Telecommunications Provider category, ahead of the three mobile operators, and second in the categories of Most Admired Company, Most Favourite Brand, and Community Upliftment Effort.

Vodacom has seen significant growth in South Africa over the past 10 years with almost 10 million customers at March 31, 2004. The Company recorded total customer growth of 29.7% to 11.2 million customers in its South African and African operations. Strong revenue growth of 18.7% can be largely attributed to growing its customer base by 23.5% in South Africa and 93.0% in other African countries.

Vodacom's roll-out in the Democratic Republic of Congo gained momentum with 170.2% growth in customers and Vodacom Tanzania is showing resilience, despite challenging market conditions. Vodacom's recent investment in Mozambique is doing well, and some 58,000 customers were connected in three and a half months since opening in December 2003.

Vodacom's attempts to enter the Nigerian mobile market have been drawn out with various equity structures evaluated to mitigate the risk to shareholders. Unfortunately, shareholders could not find an acceptable solution and Vodacom has terminated its management agreement and negotiations with VEE Networks (formally Econet Wireless Nigeria Limited), effective May 31, 2004.

Vodacom will continue its strategy of managed expansion into Africa, entering markets on the provision that the conditions and risks are acceptable to shareholders.

Over the year, we took the first steps to exploit potential synergies between the fixed-line and mobile businesses, both in driving operational efficiencies and in providing integrated product and service offerings. The businesses entered into joint retail distribution and customer payment collections during the year.

Investing actively in our marketplace is a natural extension of our strategy to sustain the creation of shareholder value. As a proudly South African business, and a leading national brand, the Telkom Group is committed to playing a principal role in the socio-economic transformation of the country. In our view, business has a critical part to play in this transformation, to ensure the long-term stability and vibrancy of its marketplace. As such, we have made a concerted effort to accelerate the implementation of the national frameworks for transformation, such as Employment Equity (EE) and Black Economic Empowerment (BEE) throughout the Group.

BEE is necessary to address the socio-economic imbalances created by South Africa's past, and fits logically into the drive for sustainability for all South African companies. Specifically, BEE is crucial for the creation of a sustainable marketplace for the ICT sector by enlarging the domestic market to support ongoing revenue and profit growth. BEE and the achievement of a broad-based black middle class is therefore a crucial strategic imperative for Telkom.

BEE has been a key focus for the ICT sector in 2004, with the development of the BEE Charter for the sector gaining momentum. Telkom and Vodacom have been actively involved in the development of the BEE Charter, the third working draft of which was released in May 2004. It is expected to be finalised in 2004 and will set the framework, including specified targets and timelines, against which the transformation efforts of all players in the sector will be measured.

Telkom was recently recognised as the most empowered company in South Africa by the Financial Mail/Empowerdex survey of the top 200 listed companies. This award, which rated companies against the "balanced scorecard", recommended by the Department of Trade and Industry demonstrated the Group's achievement in advancing broad-based BEE across all its pillars. Telkom was lauded for its progress in driving extensive internal transformation and for its investment in training and development, capacity building, preferential procurement and broader social and economic upliftment.

As a major employer in South Africa, our inward investment in sustainability and transformation is fundamental, and relates to developing our people to their full potential, and creating a dynamic and caring work environment, that is diverse and non-discriminatory. Telkom's overall employee wellness programme intensified during the year, after the launch in 2003 of a National Health Awareness campaign to encourage employees to make informed decisions about their physical and psychological health. This campaign gave employees access to free, confidential and voluntary medical testing, including testing for HIV/AIDS.

Telkom completed an in-depth study regarding the prevalence rate of HIV/AIDS in the Company. Telkom's prevalence rate is approximately 9,6%, considerably below the country's estimated average of 26.5%. Telkom will continue to implement the education, awareness and prevention strategy and has budgeted to deal with on-going voluntary testing and treatment.

Policy and regulatory overview

Government's policy of managed liberalisation of the telecommunications market began when Telkom's exclusivity ended in May 2002. We welcome the prospect of direct competition in the fixed-line business as our intensive preparations over the past seven years have positioned us well for a competitive market.

Although the process of licensing a Second National Operator (SNO) is still under way, competitive enabling regulations surrounding carrier pre-selection have been adopted. Carrier pre-selection will follow a two-phased approach, starting with a call-by-call selection, which

Telkom has already built into its exchanges. In terms of full carrier pre-selection, we have proposed that implementation be subject to market conditions, based on the results of a comprehensive feasibility study. The rationale is that substantial set-up and maintenance costs would be incurred in implementing pre-selection and number portability, although the scope for cost recovery has yet to be finalised.

Although Government has approached market liberalisation in a managed way, this will give way to a fully liberalised and competitive market by 2007. On July 15, 2003, the Department of Communications announced their plans to introduce a Convergence Bill, aimed at providing a licensing and regulatory framework for a converged telecommunications, broadcasting and information technology industry. No formal timeline for the tabling in Parliament of the new legislation has been communicated, but Government will continue to interact with the industry in its development. Once enacted, the new legislation will supplement or replace current sector-specific legislation.

In the year ahead we expect the following key regulatory developments:

- the Group's regulatory accounts, known as the COA/CAM (the Chart of Account and Cost Allocation Manual) will be presented on a historic cost basis this year and on a Current Cost Account (CCA) and Long Run Incremental Cost (LRIC) basis next year;
- the regulator is expected to review price tariffs in terms of the composition of the basket of services and the application of the price control formula, which currently caps price increases at CPI minus 1.5%; and,
- the regulations on interconnection are fairly stable and few new developments are expected over the next year, but a refinement of the interconnection guidelines will evolve as Telkom negotiates with new licencees.

Corporate governance and legal overview

The enactment of the Sarbanes-Oxley guidelines in the United States and South Africa's King Report on Corporate Governance, 2002 ("King II") has set a rigorous framework for Telkom as a listed company on the New York Stock Exchange and the JSE Securities Exchange. Telkom has established a steering committee to drive compliance with the Sarbanes-Oxley Act.

Concerning legal issues, three important developments are noted, namely the court action with Telcordia, the legality of Least Cost Routing (LCR) and the Competition Commission's Tribunal Referral.

Regarding Telcordia, following two crucial South African High Court decisions, Telkom has reversed the provision of R356 million (including interest and legal fees) made in respect of the termination of an agreement on the supply of an integrated end-to-end customer assurance and activation system. This followed Telkom winning its review application filed with a South African High Court and Telcordia's subsequent appeal not succeeding. Arbitration proceedings will now recommence in this regard.

In terms of Least Cost Routing (LCR), Telkom has filed an application to appeal against a Pretoria High Court finding that upheld the legality of LCR provisioning, utilisation and connection. This followed our unsuccessful application against 13 respondents to prevent the circumvention of our network.

Telkom has brought an application in the High Court in respect of the Competition Tribunal's jurisdiction to adjudicate the South African Value Added Network Services Association's complaint filed against Telkom at the Competition Commission. We believe that the Competition Tribunal should not decide on the nature of Telkom's rights as contained in the Telecommunications Act, 1996 (as amended) as well as Telkom's various licences.

Vodacom is also a defendant in certain legal proceedings related to its activities in Nigeria. The outcome or extent of any claims against Vodacom, should the Company not be successful in defending these claims, is unknown.

Outlook

Expectations for GDP growth are fairly positive and domestic expenditure should remain buoyant, resulting in more discretionary income becoming available for telecommunications spend. The lower interest rates of the past year will benefit Telkom in the refinancing of debt. Over the long-term, a stronger Rand is positive for Telkom as a significant portion of capital and operating expenditure is denominated in foreign currency.

In the traditional fixed-line voice market, no significant growth is expected although the introduction of the SNO and Sentech may stimulate some market growth in the same way as the introduction of a third mobile operator did in the mobile market. However, we expect to see strong fixed-line growth in data services into the future, although competition will remain fierce in this area and our cost and customer service differentials will have to be vigorously maintained. The ongoing introduction of new products and services in these markets, in the most optimal time to market, are expected to counter the impact of declining voice traffic. The mobile market, however, continues to grow strongly – mobile penetration is currently estimated at around 39% in South Africa and is expected to peak at between 45% and 50%.

Over the past year, the Group has entrenched its position as Africa's pre-eminent provider of integrated communication services. It has balanced defensive fixed-line opportunities with mobile growth, improved the utilisation of its world-class assets and the productivity of its people, and optimised its financial flexibility. Furthermore, it has played a leading role in driving the socio-economic development of its marketplace to support sustainable growth into the future.

The optimisation of the Group's capital structure will support the appropriate allocation of cash to ongoing cost saving initiatives and pursuing new growth opportunities, while delivering healthy returns to shareholders. The balance sheet now allows greater financial flexibility to participate in future corporate action.

Although the Group will continue to look inward to extract further operating efficiencies, our focus will increasingly shift outward to seek new growth opportunities. This growth will come from moving aggressively into new market areas, such as data, and exploiting the synergies between fixed-line and mobile.

The Group's position as the leading integrated communications provider in Africa adds the potential for exciting new market opportunities across the continent to support longer term growth. Informed by a growing understanding of the risks involved, both businesses will continue to evaluate and pursue African expansion.

Appreciation

The people of the Telkom Group have again proved their commitment to achieving their targets, mastering change and excelling across both financial and non-financial indicators. We thank you all for turning in a world-class performance.

We extend congratulations to everyone at Vodacom for marking their tenth year of existence with such excellent results. We look forward to working closely with you in the year ahead towards the realisation of exciting opportunities for new growth.

We thank the Telkom Board for their incisive guidance, for setting high expectations and holding us accountable to world-class standards.

It has been an outstanding first year as a listed company for the Telkom Group. We believe we can look forward with confidence in our ability to raise the bar even higher in the year ahead.

Nomazizi Mtshotshisa
Chairman

Sizwe Nxasana
Chief Executive Officer

Board of Directors

Non-executive Chairman

Nomazizi Mtshotshisa (60)
Non-executive Chairman: Telkom SA Limited
BCuris
Appointed to the Board on August 1, 2002

Executive directors

Sizwe Nxasana (46)
Chief Executive Officer: Telkom SA Limited
Bachelor of Commerce, Bachelor of Accounting Science (Honours), CA(SA)
Appointed to the Board on April 1, 1998, re-appointed to the Board for two years from January 1, 2004 to December 31, 2005

Shawn McKenzie (45)#
Chief Operating Officer: Telkom SA Limited
Bachelor of Science (Business Administration and Political Science)
Appointed to the Board on July 12, 2002

Chian Khai Tan (53)*
Chief Strategic Officer: Telkom SA Limited
Bachelor of Engineering (Honours) (Electrical Engineering)
Appointed to the Board on June 27, 2002

Non-executive directors

Charles Valkin (70)
Bachelor of Commerce, Bachelor of Law, Higher Diploma in Taxation, Attorney
Appointed to the Board on April 29, 1997

Themba Vilakazi (58)
Bachelor of Science (Biology), Executive Chairman: SRM Holdings (Proprietary) Limited)
Appointed to the Board on August 1, 2002

Richard Menell (48)
Bachelor of Arts (Honours), Master of Science (Mineral Exploration and Management), Master of Arts (Geology and Natural Science) Deputy Chairman: African Rainbow Mineral and Chairman: Anglovaal Mining Limited (until May 2004)
Appointed to the Board on July 1, 2000

Tlhalefang Sekano (45)
Executive Chairman: Communication Workers Investment Company
Appointed to the Board on September 19, 2001

Peter Moyo (42)
Bachelor of Accounting Science (Honours), CA(SA), Higher Diploma in Tax Law, Deputy Managing Director: Old Mutual Life Assurance Co
Appointed to the Board on September 19, 2001

Tan Sri Dato' Ir. Md. Radzi Mansor (62)*
Master of Science (Technological Economics)
Diploma in Electrical Engineering
Chairman: Telekom Malaysia
Appointed to the Board on October 23, 1999

Jonathan Klug, Sr (48)#
Bachelor of Business Administration, Master of Business Administration
Vice-President – Finance International: SBC Communications
Appointed to the Board on January 10, 2003

American * Malaysian

Executive management

Left to right

Shawn McKenzie (Chief Operating Officer), Chian Khai Tan (Chief Strategic Officer), Sizwe Nxasana (Chief Executive Officer), Kaushik Patel (Chief Financial Officer), Reuben September (Chief Technical Officer) and Nombulelo Moholi (Chief Sales and Marketing Officer)

Sizwe Nxasana (46)
Chief Executive Officer

Sizwe Nxasana was appointed Chief Executive Officer in April 1998. Prior to joining Telkom he was the national managing partner for Nkonki Sizwe Ntsaluba Inc from June 1996 to March 1998. He is a director of Vodacom Group (Proprietary) Limited. He is also a director of Business Against Crime, South Africa (association incorporated in terms of section 21), FirstRand Bank and Holdings Limited, and trustee of Zenex 1995 Trust. He is Chairman of Telkom Directory Services (Proprietary) Limited, Telkom Foundation, the Zenex Foundation and the Audit Committee of the South African Revenue Service Board. He holds a Bachelor of Commerce degree from the University of Fort Hare and a Bachelor of Accounting Science (Honours) degree from the University of South Africa and is a Chartered Accountant (South Africa). Sizwe was awarded a Honorary Doctorate from the University of Fort Hare in 2004.

Shawn McKenzie (45)
Chief Operating Officer

Shawn McKenzie was appointed Chief Operating Officer in July 2002. Prior to joining Telkom he was the President – Texas, Southwestern Bell Telephone Company, a subsidiary of SBC Communications, from June 2001 until July 2002. He also served as President – Kansas, Southwestern Bell Telephone Company from October 1997 until June 2001. Prior to 1997, he served in a variety of marketing, technical and external affairs positions for Southwestern Bell Telephone Company since joining SBC Communications in 1979. He is a director of Vodacom Group (Proprietary) Limited. He holds a Bachelor of Science degree in Business Administration and Political Science from the College of the Ozarks and serves on the College's Board of Trustees.

Chian Khai Tan (53)
Chief Strategic Officer

Chian Khai Tan was appointed Chief Strategic Officer in July 2002. Prior to joining Telkom, he was Senior Vice-President, Consumer and Business Sales at Telekom Malaysia from February 2001 to June 2002, General Manager Special Project Focus group from June 1998 until October 2000 and General Manager, Major Business Sales from April 1997 until May 1998. He is a director of Vodacom Group (Proprietary) Limited and TMI Mauritius Limited. He holds a Bachelor of Engineering (Honours) degree from the University of Liverpool.

Reuben September (46)
Chief Technical Officer

Reuben September was appointed Chief Technical Officer in May 2002. Prior to this appointment, he served as Managing Executive of Technology and Network Services from March 2000. He has worked in various engineering and commercial positions in Telkom since 1977. He is a member of the Professional Institute of Engineers of South Africa (ECSA) and holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Cape Town.

Nombulelo Moholi (44)
Chief Sales and Marketing Officer

Nombulelo Moholi was appointed as Chief Sales and Marketing Officer in April 2002. She joined Telkom in 1994 as General Manager of payphones and became a Group Executive of Regulatory Affairs in 1995 and Managing Executive of International and Special Markets in 1999. Prior to joining Telkom, she worked for GEC and Siemens (South Africa). She is a director of Telkom Directory Services (Proprietary) Limited, a council member of the South African Bureau of Standards, and holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Cape Town.

Kaushik Patel (42)
Chief Financial Officer

Kaushik Patel was appointed Chief Financial Officer in January 2004. He joined Telkom in 2000 and served as Deputy Chief Financial Officer. Prior to this he served as Financial Director for Teba Bank Limited in 1999 and 2000 and Finance Executive for African Bank Limited in 1998. He holds a Bachelor of Accounting Science (Honours) degree from the University of South Africa and is a Chartered Accountant (South Africa).

Management team

Theo Hess (46)
Managing Executive: Network Field Operations
Management Advanced Programme, National Certificate for Technicians and National Diploma in Business Human Resource Management. Joined Telkom in 1976

Thami Msimango (38)
Managing Executive: Network Infrastructure Provisioning
Management Advancement Programme. Joined Telkom in 1984

Pierre Marais (45)
Managing Executive: Network Centre Operations
Bachelor of Engineering (Honours). Joined Telkom in 1984

Bashier Sallie (36)
Managing Executive: Network Service Management
Management Advancement Programme. Joined Telkom in 1986

Johan Maré (49)
Managing Executive: Operations Support Systems
National Diploma in Technology – Telecommunications. Joined Telkom in 1972

Melvin McArthur, Jr (43)
Managing Executive: Information Technology
Master of Business Administration, Bachelor of Arts (Computer Science). Joined Telkom in 2001. Strategic equity investor employee from SBC Communications Inc

Randall Seidl (47)
Managing Executive: Corporate and Global Markets
Bachelor of Science (Business Administration and Agricultural Business). Joined Telkom in 1997. Strategic equity investor employee from SBC Communications Inc

Thami Magazi (46)
Managing Executive: Consumer Markets
Master of Business Administration, Bachelor of Science (Business Administration). Joined Telkom in 2001

Godfrey Ntoele (43)
Managing Executive: Business and Government Markets
Bachelor of Arts (Law). Joined Telkom in 1997

Mike Mlengana (44)
Managing Executive: Public Telephones
Master of Arts (International Economics and Development Economics), Bachelor of Arts (Honours). Joined Telkom in 1995

Wally Beelders (44)
Managing Executive: International and Special Markets
Master Diploma in Technology. Joined Telkom in 1977

Motlatsi Nzeku (42)
Managing Executive: Customer Services
Bachelor of Science (Mathematics and Physics), Bachelor of Engineering. Joined Telkom in 1994

Nkenke Kekana (42)
Group Executive: Regulatory and Public Policy
Post graduate diploma in Telecommunications and Information Policy, Diploma in Computer Programming. Joined Telkom in 2003

George Magashula (42)
Group Executive: Human Resources
Bachelor of Science (Chemistry). Joined Telkom in 2001

Mandla Ngcobo (44)
Group Executive: Legal Services
Master of Laws, Bachelor of Jurisprudence, Bachelor of Law. Joined Telkom in 1998

Amanda Singleton (42)
Group Executive: Corporate Communication
Bachelor of Arts (Communications). Joined Telkom in 1984

John Gibson (50)
Group Executive: Corporate Development
Juris Doctorate. Joined Telkom in 2002. Strategic equity investor employee from SBC Communications Inc

Nkhetheleng Vokwana (42)
Chief Executive Officer: Telkom Foundation
Bachelor of Science (Biological Sciences), Bachelor of Education, Master of Science (Parasitology). Joined Telkom in 1997

Charlotte Mokoena (39)
Group Executive: Centre for Learning
Bachelor of Arts (Human Resource Development) (Honours), Bachelor of Social Science. Joined Telkom in 2002

Corporate governance statement

The Board is committed to ensuring that the affairs of the Company are conducted with integrity and in accordance with principles set out in the King Report on Corporate Governance 2002 (King II) and the Sarbanes-Oxley Act of 2002.

Telkom was incorporated on September 30, 1991 as a public limited liability company registered under the South African Companies Act with registration number 1991/005476/06. Telkom is governed by its Memorandum and Articles of Association and the provisions of the South African Companies Act, 61 of 1973, as amended. Telkom is also subject to the listing requirements of the JSE Securities Exchange, South Africa, (JSE) and the New York Stock Exchange (NYSE).

Compliance with the King Code and JSE listing requirements

By virtue of its listing on the JSE, the Company is expected to comply with the Code of Corporate Practices and Conduct contained in King II and the new listing requirements promulgated by the JSE in September 2003. The Company is required in terms of the JSE listing requirements to disclose the extent of its compliance with King II and provide reasons for non-compliance.

The Company complies in all material respects with the principles of King II. Whilst it acknowledges the importance of good governance, the Board is aware that the Company does not strictly comply with certain principles set out in King II. These areas of non-compliance stem mainly from certain provisions in the Company's Articles of Association, which were framed to safeguard the interests of the two controlling shareholders, namely, the Government of the Republic of South Africa (Government) and Thintana Communications LLC (Thintana). Most of the areas of non-compliance will be resolved by no later than March 5, 2011, when the provisions in the Company's Articles of Association resulting in non-compliance with King II will fall away or earlier if the controlling shareholders' shareholding falls below certain stipulated levels.

The Telkom Group continues to benefit from the financial, operational and managerial expertise of our two strategic equity investors, SBC Communications and Telekom Malaysia

The following key areas have been identified as areas of non-compliance with King II, some of which are being addressed as explained below:

Area of non-compliance	Explanation
Independent non-executive directors	The majority of the directors are non-executive, however, none of the Board non-executive directors are considered independent based on the King II definition of "independent" as they are appointed by the controlling shareholders.
Board and sub-committee evaluation	The Company has engaged the services of an independent consultant to assist the Board in developing the appropriate Board and sub-committee evaluation tool.
Board charter	The Articles of Association and Shareholders' Agreement provide detailed Board responsibilities and duties.
Remuneration Committee: charter and Chairman	The roles and functions of the Remuneration Committee are defined in the Articles of Association. King II states that the Chairman of the Board should not be the Chairman of any of the committees except the nominations committee.
Membership of Board sub-committees	Shareholders in terms of reversed seats can appoint a member to the sub-committees of the Board.

The new JSE listing requirements require specific compliance with the following King II provisions from January 1, 2004:

JSE specific compliance	Telkom compliance
Policy for appointments to the Board. Policy providing a clear division of responsibilities at Board level to ensure balance of power and authority.	The Company's Articles of Association provide that the Government and Thintana as long as they each own at least 25% of the issued share capital are entitled to appoint 10 of the 11 directors on the Board. As long as the Government and Thintana collectively hold at least 30% of the issued share capital they will be entitled to appoint at least six of the 11 directors on the Board.
Roles of CEO and Chairman must be separate.	Compliant, refer page 17.
An audit and remuneration committee must be appointed and their composition, description of mandate and number of meetings held must be disclosed.	Compliant, refer pages 19 and 20.
A brief curriculum vitae for each director standing for election or re-election at the Annual General Meeting (AGM) must be included in the notice to the AGM.	Not applicable at present as the Board of Directors are appointed by significant shareholders, Government and Thintana, and the executive directors are, in terms of the Articles of Association, not required to retire at the Annual General Meeting.
Directors' capacities must be categorised as executive, non-executive or independent.	Compliant, refer page 17.
The Audit Committee must establish principles for the use of external auditors for non-audit services.	Compliant, refer page 19.

Compliance with Sarbanes-Oxley and NYSE Corporate Governance rules

The Sarbanes-Oxley Act of 2002 was passed in the United States of America to protect investors by improving the accuracy and reliability of corporate disclosures, accounting practices and corporate governance. Telkom as a listed company on the New York Stock Exchange is required to be in compliance with the Sarbanes-Oxley Act.

Sarbanes-Oxley compliance

Telkom is committed to good corporate governance practices and aims to achieve full compliance with the Act as directed by the US Securities and Exchange Commission (SEC). Telkom considers all sections of the Sarbanes-Oxley Act important, but due to media and investor interest the following sections are highlighted below.

Sarbanes-Oxley compliance	Progress
Auditor independence The Act mainly regulates the following: • pre-approval by the Audit Committee required for audit and non-audit services; • external audit partner rotation; • audit reports to Audit Committee; • conflicts of interest regarding staff employed by the independent auditor that participated in the audit of Telkom; and • audit fee disclosure for the audit services, audit related services, taxation and other.	Telkom is in compliance with these regulations.
Corporate responsibility Responsibilities of the Public Company Audit Committees with reference to: • relationships with auditors; • Audit Committee independence; • procedures to address complaints; and • authority and funding to hire auditors. Rules for professional responsibility for attorneys.	Telkom is in compliance with these regulations.
Management assessment of internal controls Section 404(a) places responsibility on management to establish and maintain an internal control structure and procedures for financial reporting, it also requires management to assess the effectiveness of internal control over financial reporting and issue an annual report confirming the above.	Telkom has established a Sarbanes-Oxley Steering Committee, representing divisions directly impacted by the requirements of the Act. Working closely with line management, a Sarbanes-Oxley implementation team is responsible for ensuring that risks and controls that may impact on the integrity of financial reporting are properly documented, reviewed and reported on by March 31, 2006.

Sarbanes-Oxley compliance	Progress
Section 404(b) places responsibility on the Company's external auditor for attesting to and reporting on management's internal control assessment. The independent auditor attestation must be in accordance with standards issued or adopted by the Public Company Accounting Oversight Board (PCAOB). Such attestation shall not be subject to a separate engagement.	Telkom's independent external auditor will attest to and report on management's assessment of the effectiveness of internal control over financial reporting for the year ending March 31, 2006.
Corporate responsibility for financial reports Section 302 places a responsibility on the Company's CEO and CFO to certify, with every periodic report, that the signing officers: • are responsible for establishing and maintaining disclosure controls; • have designed such controls to ensure the completeness, accuracy and reliability of all corporate disclosures; and • have evaluated the effectiveness of disclosure controls and financial controls and issued a report to that effect.	The CEO and CFO currently certify that the requirements of section 302 have been met for the year ended March 31, 2004. The certification is included in form 20-F as filed with the SEC.
Code of ethics for senior financial officers The Act mainly regulates the following: • the company must adopt a Code of Ethics for senior financial and executive officers; • immediate disclosure of changes to the Code of Ethics applicable to senior officers; and • the code must include standards relating to conflicts of interest between professional and personal relationships.	Telkom's Business Code of Conduct is applicable to all staff and available on the internet. Any change to the Business Code of Conduct is displayed on the internet as soon as it is officially approved.
Corporate and criminal fraud accountability The Act mainly regulates the following: • criminal penalties for altering documents; • fraud; • obstruction of justice; and • protection of employees who provide evidence of fraud.	Telkom is in compliance with these regulations.

In addition to the Sarbanes-Oxley Act, on November 4, 2003, the Securities and Exchange Commission (SEC) approved new corporate governance listing standards proposed by the NYSE. Compliance with the new corporate governance listing standards is required by the earlier of the Company's first Annual General Meeting after January 15, 2004 or by October 31, 2004, except where the rules provide otherwise.

The NYSE corporate governance rules permit NYSE-listed companies that are foreign private issuers, such as Telkom, to follow home-country practices in lieu of the new requirements except that foreign private issuers must have an Audit Committee that satisfies the requirements of Rule 10A-3 (compliance required by July 31, 2005) and must disclose the significant ways in which their corporate governance practices differ from the NYSE practices.

Key differences between South African corporate governance rules and NYSE corporate governance listing rules

	NYSE	King II
Board of Directors		
Composition	Board should have a majority of independent directors.	The Board of Directors should have a majority of non-executive directors with a sufficient number of them being independent. Diversity, skills, size, and demographics are also addressed.
Definition of independence	Includes more detailed prohibitions of independence, eg, material relationship, employment by connected parties, specific receipts/payments in relation to properties or services.	Precludes a representative of a controlling or influencing shareowner from being independent.
Regular meetings between non-executives and management	Specific requirement.	Not specifically addressed but the board is encouraged to meet with management.
Separation of the role of CEO and Chairman of the Board	Not addressed.	Requires the positions to be held by separate people.
Committees		
Committees required	Nominations, Audit and Corporate Governance.	Audit and Remuneration.
Composition	Entirely independent non-executive	Non-executive directors and preferably independent.
Chairman of the committee	Not addressed.	Chairman should be an independent director, and the Chairman of the Audit Committee should not be the Chairman of the Board.
Remuneration		
General	Focuses on CEO remuneration.	Addresses all directors' remuneration.
Disclosure	Not addressed, but covered by SEC rules.	Individual director remuneration disclosure required.
Shareowner approval of equity compensation plans	Approval for all plans and material changes required.	Approval required for re-pricing and discounting.
Dealings in securities	Not addressed, but covered by SEC rules.	Requires formal policy, disclosure and monitoring.
Use of share options for non-executive compensation	Not addressed.	Guidance given in relation to use of, pre-approval, etc.
Audit Committee		
Independence	Definition of independence differs to the main Board independence requirements.	Definition is the same as for the main Board.

	NYSE	King II
Composition	All members required to be independent, and financially literate. One member should meet the definition of financial expert.	Majority of members should be independent and all should be financially literate.
Role and responsibilities	Addresses complaints and funding for services. Audit services pre-approval issues addressed by SEC rules.	Addresses the pre-approval policy for non-audit services performed by the external auditor; recording of facts and assumptions made in declaring that the Company is a going concern; and relationship with internal audit.
Reporting	Audit Committee to present a report as part of the annual proxy statement.	Chairman to attend AGM.
Risk management		
General	Not addressed.	Specifically addresses responsibility, design, implementation, objectives, assessment and disclosure.
Disclosure and communication		
Violations	CEO required to positively confirm that he is not aware of any violations of the NYSE Corporate Governance Rules.	Annual Report to detail the extent of compliance or non-compliance with King II.
Medium	Use of website required and encouraged.	Annual Report is the main medium for disclosure.
Charters	Full charter of the most important committees to be disclosed.	Existence of charter to be disclosed.
Sustainability reporting	Not addressed.	Specific disclosure required around sustainability issues, specifically HIV/AIDS policies/strategies, black economic empowerment plans, environmental law compliance and the use of the Global Reporting Initiative Guidelines.
Relations with shareowners	Not addressed.	Companies should actively encourage attendance at AGMs; full explanation of special resolutions should be given; and meetings with investors.
Certification	Required by CEO and CFO for quarterly and annual reports.	Directors to make a statement of Directors' Responsibility in Annual Report.
Code of ethics		
Disclosure	Detailed disclosure of the code required, preferably on the website.	Disclose extent that the Company has met specific requirements and comment on the level of compliance in the Annual Report.
Waivers	Allowed.	Not addressed.

The Board of Directors

The Board of Directors comprises of three executive and eight non-executive directors. The Government of the Republic of South Africa (the Government) and Thintana Communications LLC (Thintana) are the Company's controlling shareholders. Based on their shareholding at March 31, 2004, the Government and Thintana are each entitled to appoint five directors, including two executive directors, to the Board. Thintana reduced its shareholding to 15.1% in June 2004 and are now entitled to appoint three directors.

The non-executive directors have a wide range of skills and significant commercial experience, which enable them to bring independent judgement to the Board's deliberations and decisions. No single director or block of directors dominates decision-making at Board meetings.

The roles of Chairman and Chief Executive Officer do not reside in the same person. The Chairman is a non-executive director appointed by the Class A shareholder (Government) in consultation with the Class B shareholder (Thintana). The Chief Executive Officer is appointed by the Board, on a renewable service contract basis, in consultation with the Class A and Class B shareholders.

The Board meets at least once a quarter, including sessions devoted to discussing strategy and business planning. Extraordinary Board meetings are convened when necessary to deliberate on issues that require Board resolutions between scheduled meetings. Certain members of senior management are in attendance at Board meetings. Other members of management are periodically invited to make presentations on particular issues of interest to the Board.

Board papers and other relevant documentation are timeously circulated, giving Board members sufficient time to consider the issues on the agenda, thus enabling them to make informed decisions on the issues at hand.

The Company has a formal induction programme for newly appointed directors. The induction of newly appointed directors is conducted by the Chairman and Chief Executive Officer with input from the Company Secretary. Where a newly appointed director has no or limited Board experience, the induction programme is structured to meet the individual director's specific needs.

In terms of the Company's Articles of Association, Board decisions on certain specified matters require the affirmative vote of at least two of the Class A shareholders' directors, appointed by Government and/or the majority of the Class B shareholders' directors appointed by Thintana Communications.

The Board encourages attendance at Annual General Meetings by the directors and members of management. Certain members of the Board, Audit and Risk Management Committee, and the Remuneration Committee are encouraged to attend the Annual General Meeting of shareholders.

A number of standing committees have been established to assist the Board and the directors in the effective discharge of their responsibilities. Where deemed necessary, special committees are established by the Board to consider specific issues and make recommendations to the Board. Board and special committees are free to take independent professional advice at the cost of the Company in carrying out their delegated duties.

In the 2003 Sunday Times/Markinor Top Brands Survey, Telkom was rated first in the Telecommunications Provider category and second in the categories Most Admired Company and the Most Favourite Brand.

Directors' attendance of Board meetings

	Scheduled		Special	
	Number of meetings[1]	Attendance	Number of meetings[1]	Attendance
Non-executive				
NE Mtshotshisa (Chairman)	4	4	5	5
JP Klug, Sr	4	4	5	3
Tan Sri Dato' Ir. Md. Radzi Mansor	4	4	5	5
RP Menell	4	3	5	3
TA Sekano	4	4	5	4
CL Valkin	4	4	5	5
TG Vilakazi	4	3	5	5
MP Moyo	4	4	5	2
Executive				
SE Nxasana	4	4	5	5
SM McKenzie	4	4	5	5
CK Tan	4	4	5	5
Alternate				
AJ Lewis (alternate to CL Valkin) (resigned August 18, 2003)	2	2	0	0
Dato'Md. Khir Abdul Rahman (alternate to Tan Sri Dato'Ir.Md. Radzi Mansor)	4	0	5	0
JB Gibson (alternate to JP Klug, Sr)	3	3	3	3
BP Manning (alternate to SM McKenzie) (appointed on October 24, 2003)	2	1	3	3

1. Four scheduled Board meetings and five special meetings were held during the year. The table presents the possible meetings based on the appointment and resignation dates of members.

Operating Committee

The Board had established an Operating Committee, which has the exclusive power and authority to, among other things:

- implement approved business plans, annual budgets and all other matters and issues relating to the achievement of the Company's obligations under its licences; and
- prepare, review and recommend to the Board, business plans and budgets and any amendments there to.

The Operating Committee consisted of five ex-officio voting members and three ex-officio non-voting members. Each of Government and Thintana had the right, for as long as it is a significant shareholder, to each appoint two voting members as well as the non-voting members. The fifth voting member was the Chief Executive Officer who is also the Chairman of the committee. Decisions at meetings of the Operating Committee were taken by a majority vote of the voting members. In the event of an equality of votes, a voting member of the Class A shareholder had a casting vote.

The Operating Committee ceased to exist after June 3, 2004. Following the termination of the operating committee, the board established an executive committee comprised of the Chief Operating Officer, the Chief Financial Officer, the Chief Sales and Marketing Officer, the Chief Technical Officer and the Chief Strategic Officer to advise the Chief Executive Officer.

The following were the voting members of the Operating Committee as of June 3, 2004:
SE Nxasana (Chairman)
SM McKenzie
RJ September
CK Tan
NT Moholi

The following were the non-voting members of the Operating Committee as of June 3, 2004:
BMC Ngcobo
GNV Magashula
JB Gibson

Members' attendance of Operating Committee meetings

	Scheduled		Special	
	Number of meetings[1]	Attendance	Number of meetings[1]	Attendance
SE Nxasana (Chairman)	12	12	3	3
SM McKenzie	12	12	3	3
JK Raley (resigned June 30, 2003)	2	2	1	1
RJ September	12	10	3	3
CK Tan	12	12	3	3
NT Moholi	12	11	3	2
BMC Ngcobo	12	11	3	3
AJ Lewis (resigned August 18, 2003)	3	3	1	1
GNV Magashula	12	11	3	3
JB Gibson (appointed August 18, 2003)	12	9	3	2

1. Twelve scheduled Operating Committee meetings and three special meetings were held during the year. The table presents the possible meetings based on the appointment and resignation dates of members.

Audit and Risk Management Committee

The Audit and Risk Management Committee comprises three non-executive directors. A non-executive director who is not the Chairman of the Board chairs the committee. No member of the Audit and Risk Management Committee may, other than in his or her capacity as a member of that committee, the Board or any other committee of the Board, accept any consulting, advisory or other compensatory fee from Telkom or any subsidiary of Telkom, or be an affiliated person of Telkom or any subsidiary or vendor of Telkom. Refer to Directors' Interest, Note 40 of the Consolidated Financial Statements.

The responsibilities of the Audit and Risk Management Committee include, among other things, the following:

- appoint or, insofar as that is not permitted by the South African Companies Act, 61 of 1973, recommend for appointment, Telkom's auditors, determine their compensation and oversee their work;
- resolve disagreements between Telkom's management and its auditors in regard to financial reporting;
- establish procedures for the treatment of complaints regarding accounting or auditing matters and for the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- engage independent counsel and other advisors, as determined necessary to carry out its duties;
- make determinations with respect to payment of remuneration and other compensation to Telkom's auditors for the purpose of rendering or issuing an audit report and to any advisors employed by the committee;
- conduct internal audits;
- review the interim and final financial statements;
- review and recommend changes to Telkom's statutory audit;
- monitor Telkom's internal accounting and auditing systems;
- conduct a corporate governance audit; and
- review and monitor Telkom's risk management performance and provide a high-level risk assessment for the Board on an ongoing basis.

During the 2004 financial year, Telkom's Audit and Risk Management Committee adopted a pre-approval policy for services by external auditors which does not allow certain services including bookkeeping, financial system design, valuation services, actuarial services, internal audit outsourcing services and legal services not related to the audit. At the beginning of the 2004 financial year, the committee pre-approved the engagement of the independent auditors to provide audit services based on fee estimates. The committee also pre-approved proposed audit-related services, tax services and other permissible services. The pre-approval policy requires all auditing and non-audit services provided by the external auditors to be pre-approved by the Audit and Risk Management Committee. The chairman of the Audit and Risk Management Committee is the primary member of the Audit and Risk Management Committee that has the authority to pre-approve audit and non-audit services outside of the meeting, and in his absence, any member of the Audit and Risk Management Committee.

Telkom has in place a policy to address the potential hiring of audit team members to avoid issues of independence.

The Audit and Risk Management Committee has a process in place where they obtain confirmation from the external auditors that none of the directors or officers have behaved in a manner to fraudulently influence, coerce, manipulate or mislead the external auditors intentionally or through negligent actions.

The following are the members of the Audit and Risk Management Committee as of the date hereof:
MP Moyo (Chairman)
CL Valkin
TG Vilakazi

Mr Moyo is considered the financial expert on the Audit and Risk Management Committee. He is a chartered accountant by profession and was a partner at Ernst & Young until 1997.

The Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Head of Legal Services, Head of Internal Audit and the Head of Risk Management attend meetings of the Audit and Risk Management Committee by invitation. The external auditors are invited when appropriate to attend the Audit and Risk Management Committee meetings.

Members' attendance of Audit and Risk Management Committee meetings

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
MP Moyo (Chairman)	4	4	1	1
CL Valkin (appointed June 17, 2003)	4	4	1	1
TG Vilakazi (appointed June 17, 2003)	4	4	1	1

Remuneration Committee

The Remuneration Committee consists entirely of non-executive directors and is chaired by the Chairman of the Board. The committee must include at least one member appointed by Thintana communications. The Remuneration Committee reviews the terms upon which Telkom's executive directors (except for executive directors appointed by Thintana) and senior management are employed and compensated and upon which Telkom's non-executive directors and directors are compensated and makes recommendations to the Board with respect to such matters.

The following are members of the Remuneration Committee as of the date hereof:
NE Mtshotshisa (Chairman)
JP Klug, Sr
RP Menell
TA Sekano
Tan Sri Dato' Ir. Md. Radzi Mansor

Members' attendance of Remuneration Committee meetings

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
NE Mtshotshisa (Chairman)	4	4	1	1
JP Klug, Sr.	4	4	1	1
RP Menell	4	4	1	0
TA Sekano	4	4	1	1
Tan Sri Dato' Ir. Md. Radzi Mansor	4	4	1	1

Human Resources Review Committee

The Board has established a Human Resources Review Committee comprising at least seven members, including four non-executive directors. Two members of the committee must be appointed by Thintana Communications. No action may be taken at a meeting of the Human Resources Review Committee, other than a decision to dissolve or adjourn the meeting, unless a member of that committee appointed by Thintana Communications is present. Actions of the Human Resources Review Committee must be approved by a majority vote of its members. In the event of an equality of votes, the Chairman of the Human Resources Review Committee shall have a casting vote. The Human Resources Review Committee's exclusive powers and authorities include, among other things, the following:

- recommending to the Board policy guidelines on human resource development; and
- recommending to the Board guidelines for affirmative action and empowerment programmes and monitoring compliance with those guidelines.

The Human Resources Review Committee ceased to exist after June 3, 2004.

The following were the voting members of the Human Resources Review Committee as of June 3, 2004:
NE Mtshotshisa (Chairman)
SE Nxasana
GNV Magashula
Tan Sri Dato' Ir. Md. Radzi Mansor
SM McKenzie
RP Menell
TA Sekano

CK Mokoena was a non-voting member of the Human Resources Review Committee.

Members' attendance of Human Resources Review Committee meetings

	Scheduled Number of meetings	Attendance
NE Mtshotshisa (Chairman)	5	5
SE Nxasana	5	5
GNV Magashula	5	5
Tan Sri Dato' Ir. Md. Radzi Mansor	5	5
SM McKenzie	5	4
RP Menell	5	4
TA Sekano	5	5
CK Mokoena	5	3

Directors' remuneration

Telkom believes that the levels and composition of the remuneration packages offered to the directors of Telkom, especially the executive directors and the Chief Executive Officer, are sufficient to attract and retain the directors needed to run Telkom's business successfully. In order to avoid paying more than is necessary and to ensure that Telkom offers competitive packages, Telkom constantly benchmarks itself against its peer group.

In determining the specific remuneration package for the Chief Executive Officer and non-executive directors, the Remuneration Committee consults with the Chairman, and is sensitive to the remuneration and employment conditions elsewhere in the Telkom Group. In doing so, performance-related elements of the remuneration constitute a large proportion of the total remuneration package of the CEO and are specifically designed to align his interests with those of shareholders and to give incentives to perform at the highest level. Remuneration of executive directors appointed by Thintana is not subject to the review of the Remuneration Committee. Telkom does not make payments directly to Thintana appointed executive directors, but pays management fees to Thintana for such services, determined in accordance with the Strategic Services Agreement.

Should the service of any of Telkom's executive directors be terminated early, other than those appointed by Thitana Communications the Remuneration Committee will tailor its approach in respect of compensation commitments to the circumstances of the case, with the broad aim of avoiding rewarding poor performance, while dealing fairly with cases where departure is not due to poor performance.

No director is involved in deciding his or her own remuneration. In addition, Telkom has adopted a formal and transparent procedure for developing a policy on executive directors' remuneration.

The Company's Articles of Association provide that the remuneration of the directors for their services as such shall be determined by the directors, after taking into account the recommendations of the Remuneration Committee. Non-executive directors are not, as part of their remuneration, allocated shares in the Company but may purchase shares in the Company.

Directors' remuneration and interests are detailed in the consolidated annual financial statements in Note 40 page 161.

Company Secretary and professional advice

The directors have unrestricted access to the services and advice of the Company Secretary. Directors are entitled, after consultation with the Chairman of the Board, to seek independent professional advice about the affairs of the Company at the Company's expense.

The termination of the services of the Company Secretary is a matter to be decided on by the Board.

Directors' and officers' dealings

The Board has adopted an insider trading policy in terms of which the directors, officers and employees of the Company are prohibited from dealing in the Company's securities when in possession of price-sensitive information that has not yet been made public. In addition, the Company imposes a "closed period" from the end of the reporting periods (ie year-end and half year-end) until the publication of the results, during which period the directors, officers and employees of the Company are prohibited from dealing in the Company's securities.

Outside the closed periods directors and officers of the Company are required to obtain prior approval from the Insider Trading Compliance Officer before dealing in the Company's securities. Where the Chief Executive Officer needs to deal in the Company's shares outside closed periods, the Chairman must give the approval. Where the Chairman needs to deal in the Company's shares outside closed periods, prior approval must be obtained from the Insider Trading Compliance Officer. Directors' dealings in the Company's securities are published on SENS within the regulated timeframes.

Risk management

The Group has adopted a continuous, systematic enterprise-wide risk management process, which aims to ensure all material risks are identified, evaluated and addressed. The Board continuously monitors treasury policies, risk limits and control procedures. The Audit and Risk Management Committee reviews the effectiveness of the risk management processes and reports to the Board on a regular basis.

The Group's risk exposure and management thereof is discussed in the consolidated annual financial statements, Note 39 "Financial instruments and risk management" on page 156.

Internal controls

The Board, through the Audit and Risk Management Committee, annually conducts a review of the effectiveness of its system of internal controls at Telkom company and reports to shareholders the results of such a review. The Board also believes that this system of internal controls provides reasonable assurance that Telkom's assets are safeguarded, that Telkom's transactions are authorised and recorded properly and that material errors and irregularities are either detected or prevented in a timely manner.

The Board, through the Audit and Risk Management Committee, is responsible for the total risk management and governance process within Telkom and its subsidiaries. Management is accountable to the Board and has established a system of internal controls to manage significant risks, encompassing business and operational risk.

Telkom's management is required to provide the Board with appropriate and timely information about the business, operations and general affairs of the Telkom Group. In addition, Telkom's directors are encouraged to make further enquiries where necessary should the information volunteered by management not be sufficient in all circumstances. The Chairman ensures that Telkom's Board members are all properly briefed on issues arising at Board meetings using external advisors where necessary.

Telkom's directors have unrestricted and unhindered access to all information, records, documents and property and the Board receives information that goes beyond the assessment of Telkom's quantitative performance.

Qualitative factors include customer satisfaction, market share, environmental performance and human resource performance.

Financial statements

The Board is responsible for preparing Telkom's financial statements. In this regard, it is the Board's responsibility to present a balanced and understandable assessment of both interim and annual financial information, as well as other price-sensitive public reports, including any reports to the Independent Communications Authority of South Africa and other information that Telkom is statutorily obliged to disclose.

The directors' report on the business as a going concern with supporting assumptions and qualifications as and when necessary at the time of Telkom's interim and annual financial statements, and have established a formal and transparent arrangement for considering the financial reporting and internal control principles.

Code of ethics

The Company has adopted a Business Code of Ethics that seeks to instill in its employees the spirit of fairness, respect and ethical standards in dealing with the Company's customers, competitors, suppliers, investors and shareholders to ensure that the Company's integrity is not compromised.

In business dealings on behalf of the Company, employees are expected to avoid activities that might give rise to conflicts of interest. Employees are expected to act in the exclusive interest of the Company. Procedures have been put in place to deal with conflicts of interest where these arise in the course of employees' day-to-day activities.

Telkom has established a confidential hotline service to encourage and facilitate whistleblowing. As part of the Business Code of Ethics, there is a policy to protect whistleblowers from discrimination and harassment.

The Business Code of Ethics is reviewed regularly to ensure that it corresponds with developments both inside and outside the Company. The Business Code of Ethics is published on the Company's website on www.telkom.co.za/ir.

Employment equity

The Company has in place an employment equity policy, which seeks to promote equity in the workplace by promoting equal opportunity and fair treatment through the elimination of unfair discrimination against people from previously disadvantaged groups in the workplace. Unfair discrimination in the workplace on the basis of gender, race, culture, religion, etc is prohibited.

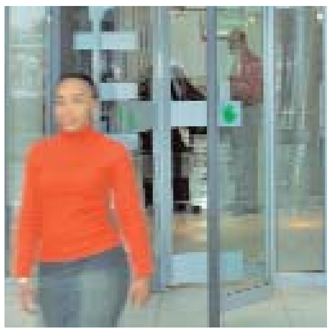
The main objectives of this policy are to:

- create an environment in which the best-qualified person is employed regardless of gender, race, culture and religion;
- create within Telkom a balanced profile of employees that reflects the composition of South African society at large;
- correct racial and social imbalances of the past; and
- provide for Telkom's current and future requirements for skilled staff.

Relationship with shareholders

Telkom is and remains ready, when practical and legal, to enter into dialogue with shareholders and make such information publicly available to all shareholders. Telkom will make every effort to keep shareholders informed. Telkom has established an investor relations function and an investor relations portal (www.telkom.co.za/ir) for communication with investors. Telkom has established a call centre (0861 100 948) and share dealing service for retail investors with Computershare.

In the IR Magazine Awards 2004 South Africa, Telkom won Best Investor Relations Officer for the FTSE/JSE top 40 and was highly commended for Overall Investor Relations and the Investor Relations website.



Human capital management

The people of Telkom are our greatest assets in achieving our vision of being a world-class communications group, and are a tangible representation of our proud nation. We are a diversity of cultures and religions, lifestyles and communities.

The human capital management report deals with Telkom Company employees only.

Introduction

The advent of competition and the introduction of new legislation on convergence may have a significant impact on the human capital requirements of the Company. While continuing to focus on efficiencies and cost reduction, a formal human capital planning strategy and process has been developed to sharpen the effectiveness of the key human capital supply strategies in place. Key capabilities for the Company have been defined and individual employees are being mapped against such capabilities.

During the year the Telkom Touch Centre was launched. Apart from demonstrating the Company's commitment to valuing its employees and their diversity, this centre has the benefit of increasing productivity since employees no longer have to take time off or use Company resources to deal with personal matters.

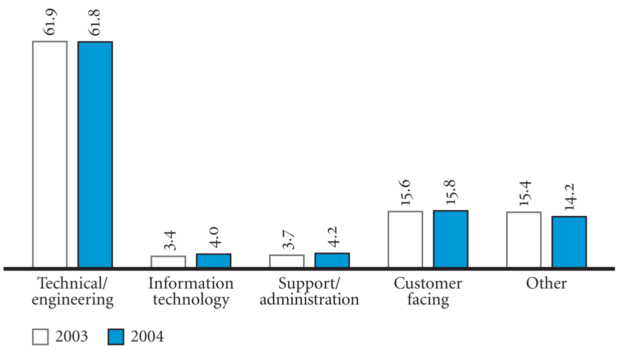
Employee profile

At March 31, 2004, 32,358 employees were employed, of whom 8.6% were in management positions, 19.9% in supervisory positions and 71.5% in operational and support functions.

Functional areas

The composition of employees reflects rapid technology changes, the focus on improved processes and systems, other internal efficiencies and the increased emphasis on customer care. Support staff have been reduced significantly from 13.4% in 1998 to 4.2% at March 31, 2004, while customer-facing staff and information technology have shown growth. It is expected that with the continuing focus on efficiencies and sophisticated operating support systems, to form a cost-efficient technological backbone, it will reduce the relative size of the technical/engineering workforce.

Functional breakdown (%)
March 31,



Experience and age

Due to ongoing organisational renewal over the past few years and planned reductions of headcount levels, the length of service profile is increasing. 61% of employees are younger than 40, with an average age of 37.3 years.

Formal qualifications profile

The qualifications profile of top management is indicated in the table below. The Chief Executive Officer and the Chief Financial Officer are qualified chartered accountants.

Top management qualification profile

Qualification	Total
Certificate	2
Diploma	4
Bachelor degree	7
Honours degree	3
Masters degree	5

Employment equity

Telkom embraced the need to proactively implement affirmative action in 1993, long before the promulgation of the Employment Equity Act, 55 of 1998. When the affirmative action policy was implemented on October 1, 1993, 46% of employees were black (African 30%, Coloured 13% and Indians 3%). Women comprised 19% of the total employee complement.

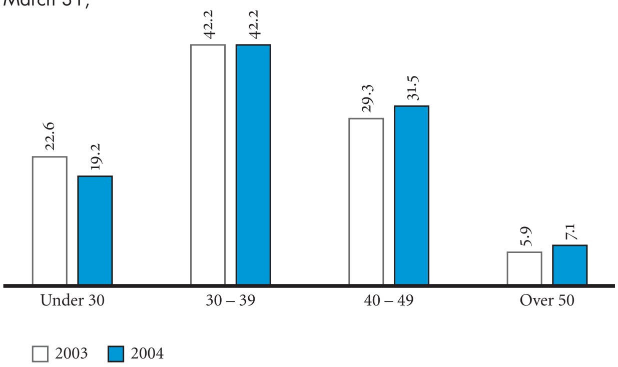
In compliance with the Employment Equity Act, the Company submits annual employment equity plans, along with employment equity reports and income differential statements, to the Department of Labour. The Company has established an Employment Equity National Committee that consults with organised labour on aspects of employment equity as required by the Act.

Employment equity achievements against targets

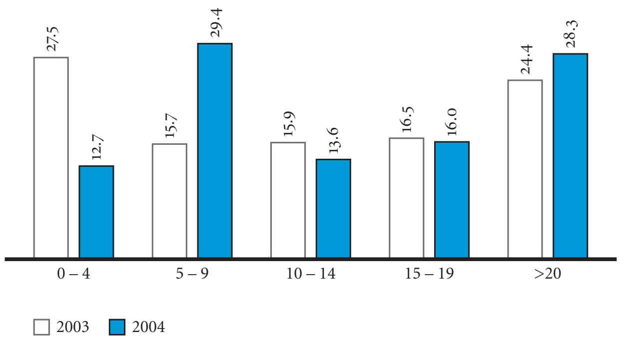
	March 31, 2003 Actual (%)	2004 Actual (%)	2004 Target (%)
Operational			
Black	62	62	63
Female	30	29	31
Supervisory			
Black	41	41	42
Female	21	22	22
Management			
Black	35	35	36
Female	18	19	19
Disabled	1	1	1

Despite the continuous employee reduction initiatives since 1999 and the limitations placed on external appointments, the Company has maintained and even slightly improved employment equity levels.

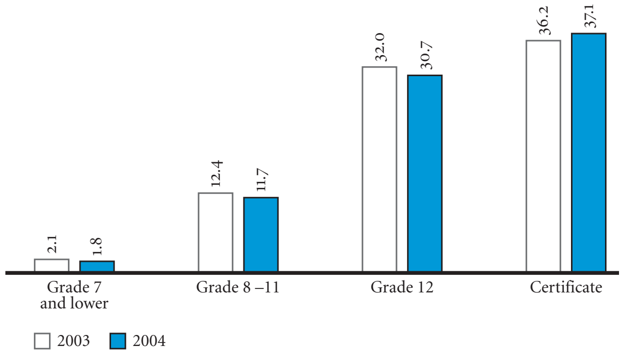
Age distribution (%)
March 31,



Length of service (%)
March 31,



Overall qualifications profile (%)
March 31,



Employee losses

The number of employees was reduced by 8.5% from 35,361 to 32,358 employees for the year ended March 31, 2004. The natural attrition rate was 5.3%. Involuntary reductions (retrenchments), represented only 3.6% of total losses.

Management level employees were given the opportunity to apply for separation packages, subject to management discretion. A total of 218 left the Company on March 31, 2004, but are still included in the closing balance of 32,358.

Headcount movement

	Year ended March 31, 2003	2004
Opening balance	39,444	35,361
Appointments	370	103
Employee losses	4,453	3,106
Company-initiated losses	2,124	1,321
Voluntary early retirement	377	224
Voluntary severance	1,531	985
Retrenched	216	112
Outsourced	–	–
Natural attrition	2,329	1,785
Closing balance	35,361	32,358

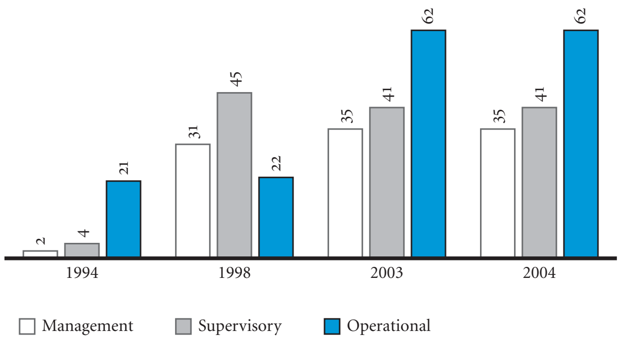
Natural attrition

	Year ended March 31, 2003 (%)	2004 (%)
Management	5.15	4.42
Supervisory	4.33	3.94
Operational	6.85	5.75
Support	5.65	4.61
Overall	6.23	5.27

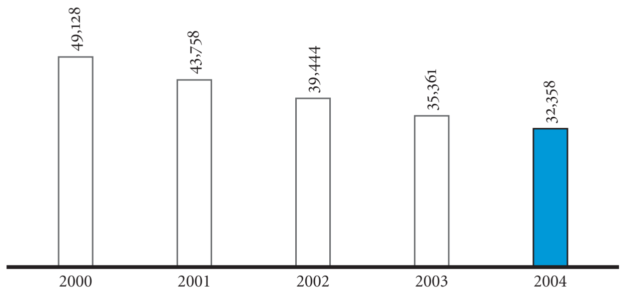
Alternative strategy to minimise job losses

Telkom continuously adapts its business practices and operations so as to improve efficiencies and productivity in a cost-effective manner. Through the Company's Strategic Human Capital Plan, the Company has an early warning system in place that can determine in advance the levels and nature of competencies that it will require for its operations.

Black representation (%)
March 31,



Number of employees
March 31,



In order to manage headcount implications resulting from new technology, efficiencies achieved, market forces etc, the Company is still using its Alternative Strategies and Approaches (ASA) to minimise job losses and create new career opportunities for its employees.

Employees whose jobs are at risk are offered Voluntary Early Retirement or Voluntary Separation Packages. If there is still a need to reduce positions, specific employees are identified and offered a Voluntary Separation or Early Retirement Package. Alternatively, they are placed with our internal career management centre, the Agency for Career Opportunities, with full pay and benefits for a certain time period. The Agency provides career counselling, training, placement in projects to gain practical experience and endeavours to place the employees in permanent positions within Telkom or externally. The Agency also offers trauma counselling for individuals and their families at any time. In cases where, after the allotted period with the Agency, employees cannot be redeployed, they are forcefully retrenched.

For ASA1 (managers and bargaining unit employees) and ASA2 (managers) the placement target was set at 50% of the total intake. The Agency proved to be successful and even exceeded the target – the placement rates for managers (ASA1 and 2) were 58% and for bargaining unit employees the placement rate was 73%.

Employees who are forcefully retrenched and those who have taken the voluntary severance or voluntary retirement packages qualify for social plan benefits, which can be used for business start-up capital, training and tools.

Remuneration and benefits

The purpose of Telkom's remuneration and reward strategy is to attract, retain and motivate employees. Fixed remuneration is reviewed once a year to ensure that employees who contribute to the success of the Company are remunerated competitively. The Company rewards performance through a number of variable remuneration plans, and intends to increase the variable component of remuneration in the future. Remuneration is a large cost component of the Company and so optimising remuneration costs remains a focus area.

Executive remuneration

Executive remuneration consists of guaranteed remuneration, a team performance award (including an individual performance award) and a conditional share plan. Performance bonuses range from 30% to 70% of guaranteed remuneration depending on job level and the payment is dependent on the achievement of Company as well as individual performance targets.

Telkom's executive management team also includes positions held by its strategic equity investor, Thintana Communications. Telkom does not remunerate the latter but pays Thintana a monthly management fee based on the number of positions held. Rates were contracted in accordance with the strategic services agreement of January 2003.

Guaranteed remuneration

Guaranteed remuneration consists of a basic salary, Company contributions to a retirement fund and a flexible portion that can be allocated to various benefits (such as a car allowance, medical aid, non-pensionable allowances) according to personal preference.

Telkom uses independent remuneration consultants to advise the Remuneration Committee of the Board of Directors on the remuneration of executive management. A remuneration level is determined and benchmarked against those of peer groups in the market. The Remuneration Committee is satisfied that fair remuneration practices are followed, and that executives are being remunerated in line with the market.

Annual performance bonuses

Management participates in an incentive scheme based on a combination of team and individual performance awards. The team award is currently based on a balanced set of measures, with financial performance carrying a weighting of 70% and customer satisfaction, efficiency of internal processes and people development carrying a weighting of 30%. If any target is not met, a proportion of the potential bonus is forfeited, with the financial measure serving as a trigger for the payment of the reward.

Conditional share plan

Telkom's Board of Directors will allocate conditional shares annually to executive management, based on their individual performance for each year preceding the allocation. The allocation will be based on a percentage of the employee's total remuneration package and the number of shares granted will be based on the share price on the "Award date", normally March of each year. Shares allocated to management level employees will only vest after three years (over a three-year period from grant date), provided Telkom has achieved its financial targets (as measured in the annual team award scheme). Shares allocated to bargaining unit employees vest over a three-year period starting two years after grant date, provided Telkom achieve its financial targets (as measured in the annual gainsharing scheme).

A maximum of 4% of issued ordinary share capital (22,281,272 shares) will be made available for the conditional share plan over the duration of the plan. The allocation will be split equally (2% each) for management level and bargaining unit employees.

Other employee share ownership arrangements

Government granted share options for the purchase of up to 2% of issued ordinary share capital

(11,140,636 shares) through the Diabo Share Trust established for the benefit of:

- employees who were permanently employed by Telkom at 09:00 (SA time) on March 4, 2003; and
- former employees who were employed by Telkom on or after October 1, 1999, up to 08:59 on the listing date March 4, 2003. Employees who voluntarily resigned, or were dismissed on disciplinary grounds before 08:59 on March 4, 2003, were excluded from participation.

The options entitle eligible employees to acquire ordinary shares at a strike price of R33.81 and any costs payable on the transfer of shares. The first two tranches have been allocated (September 2003 and March 2004), with the last two tranches being allocated in March 2005 and March 2006.

Service contracts and severance arrangements

Telkom has concluded service agreements with certain executive managers. The service agreement with the Chief Executive Officer expires on December 31, 2005 and is subject to termination by each party giving six months' notice. The other service agreements are of indefinite duration, but are subject to termination by either party giving three months' notice. In addition, retention and restraint agreements have been entered into with certain executives. Certain amounts are payable to them on signing the agreement and at specific intervals, and are repayable if an executive resigns before a date stipulated in the agreement.

Non-executive directors

The remuneration of non-executive directors of the Board of Directors of Telkom is determined at the Annual General Meeting. Information on the remuneration of non-executive directors is obtained from a leading executive search firm specialising in this field. The non-executive directors of the Board of Directors of Telkom do not participate in the incentive scheme or share ownership plans for top management. Fees paid to non-executive directors are shown in Note 40 in the consolidated annual financial statements on page 161.

Other employees

The difference between the remaining employees and executive management discussed above is that their appointment and detailed remuneration matters are not dealt with directly by the Board, but are delegated to the Operating Committee. The Board approves the overall salary increase for all employees. Remuneration of employees outside of management is paid in accordance with negotiated agreements with organised labour.

Telkom concluded a three-year agreement with its recognised unions effective April 1, 2003. The agreement provides for an 8% increase effective April 1, 2004, and 7% effective April 1, 2005.

The table below summarises market settlements, as well as Telkom increases granted (as of April 1 each year) and CPI:

Increases vs CPI and the market

	Year ended March 31, 2003 (%)	2004 (%)
CPI (calendar year)	5.8	4 – 5.5[1]
Market settlements	9.5	7.0[2]
Negotiated settlement	9.0	8.0

1 Forecast by Bureau for Economic Research
2 Forecast by Channel Group and Deloitte Human Capital Corporation

Average remuneration per annum

	Year ended March 31, 2003 ZAR	2004 ZAR
Average remuneration*	138,044	154,367

* Based on total package (ie salaries, allowances and Company contributions to retirement fund and medical aid).

Conditions of service and service benefits

A number of interventions have already been implemented to minimise the cost impact of various benefits on the Company and to drive and reinforce the desired behaviour and culture.

Leave

Employees qualify for 22 up to 28 working days' leave based on the date of appointment. The accumulation of the leave liability has been managed by (1) reducing the number of days that may be accumulated from 90 to 25 working days; (2) allowing leave days to be sold; (3) increasing the number of compulsory leave days that must be taken to 18 per annum; and (4) by introducing half-day leave from January 1, 2004. These initiatives are expected to have a positive impact on the leave liability in future.

A common leave cycle was introduced on January 1, 2004, considerably simplifying the leave administration process. During the review period a leave audit was conducted, resulting in the recovery of 27,005 days of vacation and other types of leave. The leave liability at March 31, 2004, stood at R368 million (2003: R384 million).

Absenteeism due to sick leave remains stable

	Year ended March 31, 2003	2004
% of man days lost due to sick leave	3.03	2.96

Allowances

Telkom pays allowances to qualifying employees who act in senior positions, perform co-ordination functions, act as take-over agents at call centres and are placed on standby duties. Apart from these allowances, qualifying employees also receive a homeowner's allowance, a telephone rebate concession (also applicable to post-retirement employees), and can apply for an emergency loan in cases of death or serious illness in their families.

A "Certificate of Existence" exercise was undertaken to update the database and to ensure that all pensioners receiving the telephone rebate benefit are still eligible. The rebates have been de-activated for those pensioners who did not return the certificates, as they may be deceased. The provision for this benefit at March 31, 2004, is R164 million (2003: R162 million).

Housing loan guarantees

The housing loan guarantee scheme allows qualifying employees to obtain 100% housing loans from financial institutions with which Telkom has entered into agreements, to the effect that the Company will guarantee a maximum of 20% of the housing loan for which the employee qualifies. The maximum loan and guarantee amounts are based on the employee's income. To limit the Company's liability, employees now qualify for a guarantee (subject to the qualifying requirements) only once during their period of employment, unless the Company relocates them.

As from October 1, 2003, the guarantee amount may not exceed the member's share in the Telkom Retirement Fund/withdrawal benefit in the Telkom Pension Fund. The maximum guarantee will therefore be the amount equal to the member's share in the Fund less any other outstanding loans/guarantees that may already have been issued by the Fund.

Telkom's guarantee liability is redeemed if the employee has repaid 20% on the bond account; or when the property is revalued and the difference between the revaluation and the balance of the loan equals or exceeds the guarantee; or if the property is sold by the employee and he/she redeems the bond. The contingent liability in respect of these guarantees is R144 million at March 31, 2004 (2003: R192 million).

Medical schemes

Medical aid scheme membership is optional for all employees. Telemed, Bonitas, Pro-Sano, Discovery Health and Ingwe Health medical aid schemes are recognised as the institutions of which serving and retired employees of Telkom can become or remain members.

Bargaining unit members of the recognised medical aid schemes are subsidised on the basis of R2 for every R1 that the employee/continuation member contributes, to a maximum amount that ranges between R712 and R1,625 from April 1, 2003. This limitation was introduced on July 1, 2000 to curtail Company exposure to subsidies for current and continuation members due to high annual medical aid increases. Employees appointed on or after July 1, 2000 do not qualify for continued subsidisation on retirement.

Post-retirement medical aid obligations for current and retired employees at March 31, 2004 are R2,405 million (2003: R2,277 million).

In the 2002 financial year, Telkom established a special purpose entity to fund these post-retirement medical obligations. This entity is purely used as a financing tool as we still retain our obligation to provide post-retirement medical aid benefits to retired employees. As a result, it does not meet the definition of a plan asset in terms of IAS19 – Employee Benefits, and is disclosed under investments in the consolidated annual financial statements. The entity is fully consolidated and the cumulative investment at March 31, 2004 was R1,370 million (2003: R938 million).

Telkom pension and retirement funds

The Telkom Pension Fund was established on October 1, 1991 as a defined benefit fund. Telkom has an open-ended liability towards the solvency of the Fund and no longer takes in new members. The intention is to eventually close the Fund and to transfer the remaining members to the Telkom Retirement Fund. A deficit of R1,442 million was taken over from the State Funds when the Telkom Pension Fund was established. The deficit in the Telkom Pension Fund was approximately R12 million according to the last statutory actuarial valuation done on March 31, 2002.

As at March 31, 2004 this Fund had only 339 members (1.05% of employees).

The Telkom Retirement Fund was established on July 1, 1995 with only one category of membership. This Fund is a hybrid fund where active members have defined contribution benefits and the pensioners have defined benefits. It does not offer different investment options to members.

Telkom employees were given the option on various occasions to transfer from the Telkom Pension Fund to the Telkom Retirement Fund. Upon transfer of the assets from the Telkom Pension Fund to the Telkom Retirement Fund on July 1, 1995, the deficit was also transferred to the Employer's Protection Reserve in the Telkom Retirement Fund. The deficit in the Telkom Retirement Fund was R474 million as at March 31, 2003. Telkom undertook to redeem the deficit by paying additional contributions to the Fund. The final payment of R285 million was made on January 2, 2004, in advance of the planned date of June 2005.

As at March 31, 2004, 32,017 (98.9%) of Telkom employees were members of the Telkom Retirement Fund.

Competency development

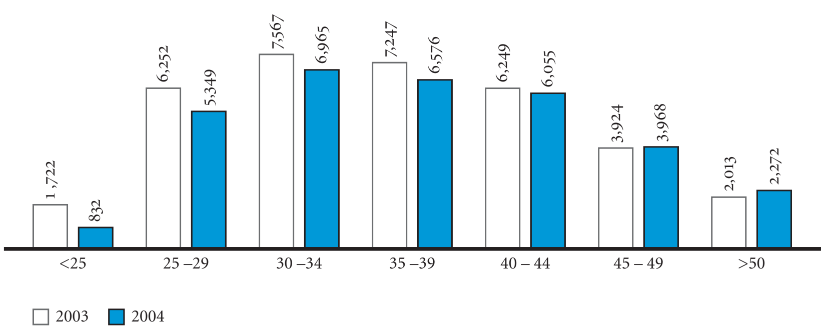
Telkom is committed to training, development and performance improvement and to developing a culture of high-quality lifelong learning, thus supporting the objectives and principles of the National Skills Development Strategy.

The Skills Development Act of 1998, the Skills Development Levies Act of 1999 and the Skills Development Amendment Act of 2003 aim to establish a cost-effective and high-quality skills development system that supports economic growth, employment creation and social development, and is responsive to national and individual needs. The promulgation of these Acts compels Telkom to pay a training levy of 1% of total remuneration to the Information Systems, Electronics and Telecommunications Technology (ISETT) Sector Education and Training Authority (SETA), a proportion of which can be claimed back in the form of skills grants on submission of the annual Telkom Workplace Skills Plan.

With a total staff complement of 32,358 employees as at March 31, 2004, Telkom is by far the largest enterprise and financial contributor in the ISETT Sector.

The training functions are centralised in the Centre for Learning and Organisational Capacity (CFL & OC), which provides for continuous learning for all employees. For the year ended March 31, 2004, Telkom spent R390 million (2003: R375 million) on training and development, 1.3% of Telkom Company revenues.

Age distribution of Telkom Retirement Fund members (Number of employees)
March 31,



Training days

	Year ended March 31, 2003	2004
Facilitator led	301,214	238,088
WEB based	19,978	30,832
Total	321,192	268,920
Training days per average employee	8.6	7.9

Leadership development

A holistic leadership and management strategy has been drawn up to support Telkom's vision of becoming a world-class communications company through building a cadre of world-class leaders and managers. The outcomes of this strategy are to build a leadership and management bench-strength for Telkom, at all levels, in support of co-ordinated succession planning; to enhance the leadership capability; enhance corporate performance through individual performance; contribute to the creation of shareowner value; provide employees with opportunities for personal growth through managed learning and ensure that Telkom attracts, identifies, develops and retains capable and competent leaders.

Leadership and management development programmes

All leadership and management development programmes, both internally and externally sourced, are based on the roles, capabilities and competencies in the Telkom Leadership Model.

These development programmes have been designed from a world-class, global perspective with a strong ICT focus in the programme content. The content is also aligned with Telkom's current and future business needs and facilitates the transition in managing a listed entity. The goal is to entrench the competitive mindset culture and enhance Company performance through personal accountability and ownership.

Leadership and management development includes internally as well as externally sourced components. The nature of internal development varies according to the level of management. The following table refers to leadership and development programmes available per each employee level and the number of participants.

Leadership and management development

Employee level	Internal programmes	External programmes	Participants
Executives	Interventions and Virtual Campus offerings	Executive Development Programme (Various)	42
Senior managers	Interventions and Virtual Campus offerings	Senior Management Development Programme (Gordon Institute of Business Science)	116
Managers	Internal Management Development Programme and Virtual Campus offerings	Management Development Programme (University of Stellenbosch)	378
Operational managers	Internal Operational Management Development Programme and Virtual Campus offerings	Operational Management Development Programme (Technikon of Witwatersrand) and Advanced Operational Management Development Programme (Durban Institute of Technology)	378
Operational staff	Fundamental Management Programme, internal modules and Virtual Campus offerings		158

The Telkom Mentorship Programme

A mentorship programme is being introduced in a focused manner to augment classroom learning. The programme aims to entrench mentorship and coaching as part of the leadership role by providing tools and resources for leaders. Research has shown that some competencies, especially leadership competencies, are best learnt through observation and coaching rather than in a classroom.

It is envisaged that mentorship will enable the Company to upgrade its people's skills; promote diversity of thought and style; maximise cross-functional communication; facilitate succession planning and strengthen its competitive advantage.

Targeted development initiatives

Equity targets underpin every objective of the National Skills Development Strategy. Gender equity is an essential principle for the transformation of economic relations broadly, and education and training more specifically, and for ensuring that skills shortages and the legacy of apartheid in South Africa are addressed. Of the beneficiaries of the National Skills Development Strategy, 54% should be female.

It is against this background that Telkom introduced the Targeted Development Initiative (TDI), an accelerated technical development programme aimed at females and blacks.

The TDI training is aimed at building a pool of talented female employees with sound technological skills, business acumen and people skills.

The TDI initiatives will be rolled out regionally in the next year, greatly increasing the size and impact of the target audience. During the year ended March 2004, 116 females were in the programme with 26 who have completed the programme.

Within the TDI, four programmes are envisaged at different complexity levels and aimed at different target audiences.

TDI Programmes and impact as at March 31, 2004

Programme	Starting figures including transfer	Completed participants	Remaining participants	Withdrawals	Transferred to next programme
Fundamental programme – 1st intake	30	22 (73%)	–	6 (20%)	2 (7%)
Fundamental programme – 2nd intake	34	–	30 (88%)	3 (9%)	1 (3%)
Fundamental programme – 3rd intake	33	–	33 (100%)	–	–
Fundamental sales and marketing	24	–	24 (100%)	–	–
Technology Business Programme – 1st intake	28	–	26 (93%)	2 (7%)	–

Learnerships

A learnership is a workplace learning intervention aimed at facilitating the acquiring of a National Qualification Framework (NQF) recognised qualification. In collaboration with ISETT SETA, Telkom has implemented a Call Centre Learnership and a Project Management Learnership, which will enable Telkom to contribute to the skills development in the ICT sector whilst also developing its own employees.

Sales and marketing training

A comprehensive people development track was designed and delivered to the Corporate and Global Market service organisation, as well as for Business and Government segments. A Call Centre learnership was introduced and will target 264 learners.

In addition, product training was provided to the various market segments as an identified primary or secondary channel to market. 1,072 external vendors were trained on Telkom's various products related to the Consumer Market segment.

Core competency training

Most of our training is spent towards development of functional skills which are crucial in fulfilment and assurance of services to our customers and the marketing thereof.

As a participant in the Commonwealth Telecommunication Organisation (CTO) Telkom participates as a training recipient whilst it also provides training to various CTO member countries.

SHE training

In order to comply with the Occupational Health and Safety Act, Act 85 of 1993, appropriate training and development programmes are provided to ensure that a safe and healthy working environment is implemented and maintained by all employees.

Graduate development schemes

The Centre for Learning's Graduate Development Scheme manages Telkom's national and international university scholarships and bursary programmes in the fields of Engineering, Information Technology, Marketing and Finance. Telkom's bursaries programme offers bursaries to students engaging in telecommunications related studies as well as study loans, school grants and scholarships.

Fifty six graduates who completed their studies at the end of 2003 were placed within the Company. All other graduates released from their contractual obligation were provided with contact information of employment agencies. The following table indicates the extent to which the Company provided assistance with formal studies in the year ended March 31, 2004.

Assistance with formal studies

Scheme	Allocated	Black (%)	Female (%)
Full-time bursaries	141	78	37
Employee academic studies	274	84	27
Tertiary study loans to children of employees	97	53	29
Secondary school grants	280	95	55

Virtual Campus

A variety of training programmes are available through the Virtual Campus, a computer-based training system where learners are involved in self-directed learning. During the year under review, 30,832 virtual courses were completed. E-learning is on the increase in Telkom and our extensive use of e-learning significantly reduces training costs.

Centre of Excellence programme (CoE)

Telkom's Centre of Excellence programme is based on collaboration between Telkom, the telecommunications industry and the Department of Trade and Industry. Through its Technology and Human Resource for Industry Programme (THRIP), the DTI matches industry's financial contribution on a one-to-one basis. The programme is designed to promote postgraduate research in communication technology and allied social sciences, and to provide facilities for young scientists and engineers.

Launched in 1997, the programme has built substantial local telecommunications and information technology competence and has realised a cumulative investment of approximately R175 million in telecommunications research.

Each Centre of Excellence has a unique research focus area, examples being distributed multimedia; radio access involving CDMA receivers; ATM and broadband networks; internet protocol networks and modelling optical communication. In addition to developing skills in science, engineering and technology, the centres promote partnerships between historically disadvantaged and advantaged institutions.

Telkom is currently supported by the following industrial partners who provide additional funding: Aberdare Fibre Optic Cables; Alcatel SA; ATC; Corning Optical Fibre; Cisco Systems; Business Connexion; Dimension Data; Ericsson; Grintek Telecoms; IST; Hewlett Packard; Huawei Technologies; Letlapa Mobile Solution; Malesela Taihan Electric Cable; Marconi Communications; MarPless Communication Technologies; Molapo Technologies; Siemens; Sun Microsystems; Tellabs and TFMC.

Centre of Excellence involvement

	Year ended March 31, 2003	2004
Number of centres	14	15
Total investment on telecommunication research (cumulative R million since 1997)	150	175
Number of students conducting postgraduate telecommunication research	350	350
Number of students receiving support from Telkom to conduct full-time research	70	73

School of accounting

The objective of the Company's Training Outside Public Practice (TOPP) programme is to provide professionally accredited training to financial employees in Telkom. The school also provides updates on current financial issues and Continuous Professional Education (CPE) courses with the specific aim of training accountants.

A total of 22 new students are on the Associated Accounting Technician (AAT) programme for the 2004 academic year. In total, as at March 31, 2004, 55 students are on the AAT and 8 on the AGA and CA programme.

Retention of critical skills

The focus is on a holistic approach entailing both financial and non-financial rewards that influence employees to stay with the Company. Employees on the retention programme are expected to transfer skills to diverse protégés as part of the three-year retention agreement with the objective of building a critical mass of talented people. In addition, the Company regularly surveys the market to keep remuneration and benefits in line with market trends, particularly in critical environments such as IT, corporate accounts, engineering, planning and marketing. The focus is not only on top performers but also on market alignment with respect to employees who have critical skills and high potential. There are currently 88 participants on the programme.

Succession planning

A pool of successors has been identified to serve as leadership bench strength for the Company. An independent vendor has assessed candidates to determine their potential and development areas. Detailed development plans for potential successors have been developed and implemented.

Employee relations

Union membership

The Company recognises two union formations, namely the Communications Workers Union (CWU) and the Alliance of Telkom Unions (ATU), the latter being an alliance consisting of the South African Communications Union (SACU) and Solidarity Union. Managers are not represented in the collective bargaining process.

The table below details the extent of unionisation in the Company as at March 31, 2004.

Union representation

	Bargaining unit (%)	Management (%)
Recognised unions	77.3	24.4
ATU	37.2	16.6
CWU	40.1	7.8
Non-affiliated unions	0.6	10.4
No-union	22.1	65.2

Recognition of unions

The Company's collective recognition agreement with ATU and CWU has the following salient features:

- Rules for the election of ordinary shop stewards, specifying their rights and obligations.
- Dispute procedure – for dealing with in-house dispute resolution as well as external resolution through the Commission for Conciliation, Mediation and Arbitration (CCMA).
- Grievance procedure – ensuring that aggrieved employees' complaints are fairly and properly addressed.
- Disciplinary procedure – for dealing with employee misconduct, absenteeism, poor performance, theft, fraud and so on.
- A full-time shop-steward agreement, specifying the roles and responsibilities of full-time shop stewards, of which CWU has 10 and ATU 9.

Revised agreements covering recognition, full-time shop stewards, disciplinary procedures, incapacity and grievance procedures have been entered into with ATU. Similar agreements are being pursued with CWU. The new agreements incorporate developments in the labour relations arena over the past few years and aims to ensure a common interpretation of its content and to further improve relations and enhance fairness, in turn reducing legal risks to the Company. Subsequent to March 31, 2004 the Company has concluded the recognition agreement with CWU.

Substantive negotiations

Telkom reached a new three-year substantive agreement (valid from April 1, 2003 to March 31, 2006) with organised labour in June 2003, aimed at ensuring labour stability for the Company and creating certainty for employees on salary and benefits related matters.

Employee relations climate

Telkom is committed to maintaining open channels of communication with its unions. The Company has a history of labour peace with minimal disruption or industrial action. In 2004, 201 working days (2003: 6,989) were lost due to industrial action.

A development programme in the form of a learnership is being developed in order to build the capacity of organised labour and at the same time create a foundation for constructive, workable and mutually beneficial relationships with organised labour.

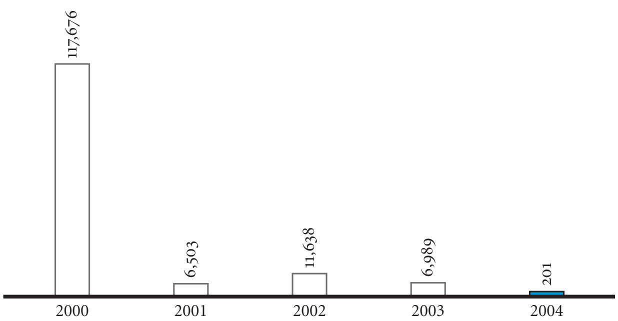
Strategic services agreement

On January 16, 2003, Telkom entered into a new strategic services agreement with Thintana Communications LLC, SBC International Management Services Inc (SBC Management) and Telekom Management Services Sdn. Bhd (Telekom Management). In terms of this agreement, Thintana Communications is entitled to appoint the Chief Operating Officer, Chief Strategic Officer and Financial Controller. Telkom itself is entitled to request certain additional senior managers during this period.

The new agreement differs from the original agreement in that a reduced number of equity partner personnel has been scheduled for secondment to Telkom. When the original strategic services agreement commenced, up to 75 managerial positions were filled by personnel provided by SBC Management and Telekom Management. As of March 31, 2004, that number had been reduced to 18 (2003: 32) positions. On January 29, 2004, a South African was appointed as Chief Financial Officer of Telkom, a position previously held by a representative of SBC Management. This was in line with Thintana Communication's commitment to make reasonable efforts to appoint historically disadvantaged South Africans to managerial positions.

In terms of the new strategic services agreement, all seconded personnel will provide the same strategic services as in the original agreement. As and when vacancies occur, personnel will be selected by Thintana Communications and provided to Telkom through a consultative process. Telkom will continue to pay a fee for the services of each person provided under the agreement to Thintana Communications. Fees paid are shown in Note 42 in the consolidated annual financial statements on page 167.

Days lost due to industrial action
March 31,



To ensure we have a pool of skilled leaders to take us into the future, Telkom has introduced a comprehensive Leadership and Management Development Programme. A Succession Planning programme further complements the bouquet of leadership development initiatives.

Black Economic Empowerment

For Telkom, it is a business imperative to enable the diverse majority of South Africans to participate meaningfully in the mainstream economy, and particularly in the ICT sector. Our long-term objective is to help create greater buying power among South Africans, in turn expanding the marketplace in which we trade.

Background

Since the advent of democracy in 1994, addressing apartheid's legacy of imbalance through systematic socio-economic transformation has been a national priority.

Over the past decade, a policy framework has been evolved to prompt transformation and take it from the realm of theory into practice. The introduction of legislation to advance, inter alia, Employment Equity (EE) and Black Economic Empowerment (BEE) has progressively ratcheted up the impetus and urgency of the transformation agenda.

In the last two years, the adoption of sector-specific BEE charters, formulated on a voluntary and consultative basis by industry stakeholders in line with national policy, has resulted in agreed targets and timelines being set for BEE in key sectors, such as liquid fuels, mining and financial services. The object of these charters is to provide a framework for action and measurement of a company's BEE efforts versus its peers, according to a balanced scorecard of BEE indicators.

Telkom has responded proactively to BEE over the past decade. Internally, as its policies in this regard have evolved and refined, they have remained grounded in sound economic and business realities. Externally, Telkom has assisted a range of organisations in the development of workable BEE strategies, shared its experience at conferences and worked constructively with Government in support of the development of a viable regulatory framework for BEE.

A BEE Charter for the ICT sector is being finalised at the time of writing.

Developing a regulatory framework for BEE

The broad-based Black Economic Empowerment Act of 2003 (the Act) provides the definitive legislative framework for the promotion of BEE. The preamble to the Act indicates that BEE is a crucial component of sustainable development in South Africa and makes reference to the following:

- The South African economy still excludes the vast majority of its people from ownership of productive assets and possession of advanced skills.
- The economy performs below its potential because of the low level of income earned and generated by the majority of its people.
- Unless further steps are taken to increase the effective participation of the majority of South Africans in the economy, the stability and prosperity of the economy in the future may be undermined.

As such, the Act undertakes to:

- Increase broad-based and effective participation of black people in the economy and promote a higher economic growth rate, increased employment and more equitable income distribution.

- Establish a national policy on broad-based BEE to promote economic unity, protect the common market and promote equal opportunity and equal access to Government services.

Broad-based BEE is defined by the Act as the economic empowerment of all black people including women, workers, youth, people with disabilities and people in rural areas, through diverse but integrated socio-economic strategies that include:
- increasing the number of black people who manage, own and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce; and
- investment in enterprises that are owned or managed by black people.

The BEE Act calls for the establishment of sector charters that are representative of the major stakeholders in the sector and advance the objectives of the Act. Government has put the onus on industry to lead the process of developing these charters, which must establish explicit targets and timelines to advance BEE in the particular sector. The adoption of BEE charters intends to support a transformation process underpinned by certainty, cooperation, measurability and a consensus-driven model for broad-based and relevant BEE.

The Department of Trade and Industry's (DTI) basic template for a balanced BEE scorecard, with associated weightings, is as follows:

• Equity ownership	20%
• Management (control)	10%
• Employment equity	10%
• Skills development	20%
• Preferential procurement	20%
• Enterprise development	10%
• Residual (sector specific)	10%

The development of the ICT Charter

The ICT sector is viewed by Government as a key driver of the economy, warranting the establishment of a BEE Charter for the sector. The Group's commitment to this process has resulted in Telkom and Vodacom taking leading roles in this development, as members of the ICT Empowerment Charter Working Group. Telkom represents the interests of a number of other communication services providers at the working group.

The ICT Charter is being developed by way of an inclusive, negotiated process in search of the most positive outcome for all stakeholders. The ICT Charter will define a scorecard for the sector, with appropriate weightings, and set targets and timelines in respect of each BEE indicator. The Charter will also address constraints in the industry that are likely to hamper the achievement of BEE objectives, for instance, accessing finance to advance BEE ownership in the sector.

Telkom's strategy for broad-based BEE

BEE as a business imperative

Given that transformation is crucial to the stability and vibrancy of its marketplace and its ability to create shareholder value into the future, Telkom views BEE as imperative for long-term growth. As such, Telkom is committed to going beyond compliance with statutory requirements in its BEE efforts.

Telkom was one of the first companies in South Africa to develop and implement an economic empowerment programme aimed at ensuring constructive participation of black, female and disabled South Africans in the economy.

Since April 1, 1997, Telkom has spent close on R24 billion to meet its BEE objectives.

A sustainable model for BEE

Telkom's BEE strategy is designed around the following:
- the sustainability of the strategy;
- the ongoing development of processes to achieve its aims;
- optimising the linkages between the organisation and its environment;
- achieving competitive advantage; and
- supporting the Company's vision of being a world-class competitor.

The strategy is rooted in a broad-based approach to BEE underpinned by critical self-measurement against an internally developed scorecard, which is also used to evaluate Telkom's suppliers.

Telkom's BEE scorecard exceeds most of the DTI's recommended empowerment weightings. Whereas the DTI applies a 20% weighting to equity ownership for tender consideration, Telkom's weighting is 30% – a deliberate strategy to encourage black ownership in the ICT sector. Telkom's weighting of 45% on management, employment equity and skills development exceeds DTI criteria by 5%, and on enterprise development Telkom matches the DTI's 10% weighting.

Telkom has developed a clear model to further BEE, largely based on leveraging its buying power to empower black, small and medium businesses. Telkom's model encourages its traditional suppliers to support black business through capacity-building initiatives such as joint ventures, strategic alliances, skills transfer programmes and the disaggregating of contracts.

Given Telkom's total annual procurement spending of around R7.9 billion versus its employee expenses of R6.6 billion and social investment of R40.5 million, it follows that procurement and enterprise development are the areas in which Telkom can contribute the most to advancing BEE. In the 2004 financial year, Telkom directed R4.6 billion to BEE suppliers, including suppliers with significant BEE programmes, making up 57.8% of total procurement spend.

Telkom requires its suppliers to comply with all relevant policy, including the Employment Equity Act, the BEE Act, the DTI's Industrial Participation programme, and the forthcoming ICT Charter. With respect to collaboration, the Company encourages suppliers to embrace and support emerging small, medium and micro enterprises (SMMEs) in view of their importance in the growth of the national economy.

Telkom has initiated a capacity-building drive targeted specifically at SMMEs in the ICT sector. The programme focuses on the following key objectives:

- escalating the procurement of goods and services from black-owned ICT companies;
- building a strategic supplier base and ensuring its long-term sustainability;
- developing a job creation programme to secure opportunities for former employees and unemployed people, and to ensure black equity participation in outsourced contracts;
- ongoing initiatives to ensure appropriate skills levels among staff; and
- developing black SMMEs and enabling empowerment companies to participate in local manufacturing.

Telkom has taken its capacity building initiative further by introducing courses that assist suppliers in reading, understanding and reacting to market dynamics. During the year ended March 31, 2004 Telkom trained 905 suppliers in categories ranging from tender courses to basic business management. A special fund for capacity-building initiatives has been created under the direction of the Chief Executive Officer.

Other mechanisms to support capacity-building include:

- Price preference – this is used as a means to build capacity in black SMMEs, giving these suppliers a competitive edge when bidding.
- Price matching – this compels black suppliers to match the budgeted amount or most preferred price before they can be awarded a contract, on condition that they meet all other evaluation criteria.
- Short-term payment cycles – a payment cycle of not more than 15 calender days is awarded to selected black SMME suppliers.
- Set asides – where appropriate, some tenders are set aside for the exclusive participation of black SMME suppliers.
- Performance guarantees – the capacity-building fund is used to provide performance guarantee certificates on behalf of black SMME suppliers who are unable to provide or raise guarantees themselves.

Independent endorsement of Telkom's broad-based achievements

In an influential ranking of the empowerment credentials of the top 200 listed companies in South Africa, conducted by the respected publication Financial Mail and its research partner Empowerdex, Telkom achieved top honours as the country's most empowered company. Telkom scored highly across a broad-base of BEE indicators, including capacity-building, training and development, employment equity, preferential procurement and economic upliftment initiatives.

Telkom was ranked ninth in employment equity, with 86% of its top management being historically disadvantaged, fourth in skills development and sixth in the combined affirmative procurement and enterprise development analysis. Despite the Company's commitment to diversifying its middle management cadre, it was placed twentieth in the individual management analysis. It came nineteenth in the ownership analysis.

Telkom was ranked as South Africa's most black empowered company in the Empowerdex/Financial Mail 2004 survey, scoring highly across a broad-base of BEE indicators.

Telkom and Vodacom have created meaningful value for BEE shareholders. Over 100,000 retail investors subscribed during Telkom's IPO, specifically targeted at historically disadvantaged individuals. In its first year as a listed company, the estimated value created for retail shareholders amounted to approximately R560 million.

Vodacom has realised significant value for its previous BEE shareholder, HCI. In October 1996, a 5% stake was sold to HCI for R118 million. Six years later, the BEE company sold their stake for R1.5 billion, making it one of the most successful BEE deals ever effected in South Africa.

Looking forward

Telkom is in the process of enlisting the services of a research company to conduct an independent impact study of the Company's BEE initiatives. The findings of the survey will assist the Company to advance all the components of BEE most effectively going forward.

Although the year ahead will see Telkom continuing to effect its BEE strategy, the following areas will receive specific focus:

- continued education and engagement of traditional and emerging suppliers with regard to its BEE strategy;
- ongoing communication with all stakeholders in this regard;
- sustaining emerging black businesses and SMMEs;
- meeting employment equity targets;
- ongoing evaluation of potential BEE shareholders;
- enforcing supplier commitments to BEE and avoiding the enrichment of few versus the empowerment of many; and
- development of courses in collaboration with suitable institutions, to contribute to business competencies in support of long-term sustainability.

Telkom believes that the stability and vibrancy of South Africa's economy into the future is contingent on a more equitable spread of wealth and economic means. The previously marginalised sectors of South African society must be actively empowered to move in – and contribute to – the economic mainstream if the country is to realise the full economic potential of its diverse society over the long term.

As such, the Group will continue to invest resources in advancing our broad-based BEE strategy in the most meaningful and sustainable way possible.

Review of progress

In the year to March 31, 2004, Telkom made strong progress in most aspects of BEE, and largely met its targets in this regard.

The following table sets out these achievements.

Category	Achievements in 2004	Reference
Equity value created and broad-based ownership	• Approximately 100,000 retail shareholders. Estimated value creation of R560 million at March 31, 2004. • 11.14 million share options from Government granted to current and qualifying ex-Telkom employees • 3.1 million shares granted to more than 30 000 employees in terms of Conditional Share Plan • R1.4 billion equity value created in 6 years by Vodacom's previous BEE shareholder, HCI	Refer "Shareholder Information", page 232
Board of Directors	• 45% of Board from HDI groups, compared to zero in 1994	Refer "Board of Directors", page 7
Top management	• 81% of top management from HDI groups, excluding Thintana employees and white females	Refer "Human Capital Management" report, page 24
Employment equity	• 56% of Telkom employees from HDI groups (excluding white females) • 65% of Vodacom employees from HDI groups (excluding white females)	Refer "Human Capital Management" report, page 24
Skills development	• R390 million, 5.9% of employee costs, spend on training at Telkom • R15 million, 3.1% of employee costs, spend on training at Vodacom	Refer "Human Capital Management" report, page 24
Procurement	• R4.6 billion, 57.8% of procurement spend, spend on BEE companies, including companies with significant BEE programmes • R1.3 billion, 60% of procurement spend, Vodacom spend on BEE	Refer "Black Economic Empowerment" report, page 36
Enterprise development	• Telkom's well established Enterprise Development Programme resulted in 905 suppliers (2003: 724) receiving training from Telkom. BEE companies benefit from various capacity-building initiatives such as price preference and short-term payment cycles • Vodacom has established a preferential procurement programme	Refer "Black Economic Empowerment" report, page 36
Corporate social investment	• R40.5 million (2003: R37.7 million) CSI spend at Telkom • R30.6 million (2003: R20.3 million) CSI spend at Vodacom	Refer "Corporate Social Investment" report, page 45

Safety, health and environment

As a responsible employer and model corporate citizen, Telkom conducts its business in a manner that demonstrates respect for employees, customers and the environment. The Company takes a holistic approach that integrates social, ethical, environmental, health and safety considerations into business planning, implementation and decision-making.

Introduction

During the year, through the Governance process established in 1999, Telkom continued to improve compliance and functional ownership of Safety, Health and Environment (SHE). The Telkom SHE Council, representing top management and supported by the Integration Committee, established 16 Company targets to which overall compliance of 87% was attained.

Functional ownership, already formalised at Managing Executive and Group Executive levels through the Quarterly SHE Council and associated SHE Governance process, has been further refined. Clearly defined SHE duties have been allocated to each level of management and executives have been assigned to report on the SHE Governance process, ensuring that all significant risks and hazards are holistically managed. The Telkom Board, which has final accountability for SHE management, continues to align SHE management principles with the core Company values.

In terms of Telkom's SHE Management System and Incident Prevention Plan (IPP), Telkom reached a milestone by being certified to ISO 14001 and OHSAS 18001 standards.

During 2003, Telkom developed an integrated Health Profile for determining risks and costs associated with employees' physical, psychological and socio-economic health and well-being. Based on the Health Profile, Telkom has contextualised its HIV/AIDS risk and applied advanced methods to establish HIV prevalence rates. Awareness, education and prevention continued to receive priority and, with the endorsement of the CEO and organised labour, were further integrated into support structures Company-wide.

In line with Telkom's commitment to showing SHE leadership in the Southern African ICT sector, Telkom continues to develop strategic partnerships and relationships and to participate in the development of applicable legislation and standards. During the coming year, the drive for integration across the Company's SHE portfolio will focus on:

- continual improvement of the SHE Governance process and its operationalisation;
- further enhancement and automation of the Telkom SHE Management support system; and
- targeted health management interventions, policies and programmes, around HIV/AIDS support and care.

Safety, health and environmental policy

Although Telkom operates its SHE policies as a fully integrated function, the Company also addresses specific policy requirements. SHE Governance is the overarching framework within which these policies are applied, reviewed and continually improved.

Key characteristics of this framework are that:

- safety and environmental management is the responsibility of every employee.
- Telkom is committed to safe, hygienic and environmentally conducive working conditions.
- continually improving SHE performance is based on technical development, scientific understanding, customer needs and community expectations.
- employee training and capacity building is provided on all SHE Management aspects, including HIV/AIDS.
- contractors and suppliers are encouraged to adopt SHE Management practices, with legal compliance as an absolute minimum requirement.

SHE risk and hazard disclosure

Telkom has classified each risk to a profile coupled to a job function and then further clustered these into service organisation groups. In terms of risks and reporting, Telkom has three main risk classification groups (high, medium and moderate), based on job functions, labour intensity, risk exposure and severity.

Safety

Safety remains the key focus of risk management across all categorised groups of service organisations, with the aim of reducing the frequency and severity of incidents and promoting effective prevention.

The most frequent causes of incidents and fatalities are:

- The illegal power reticulation of electricity using Telkom's network infrastructure by residents in informal residential areas, causing electrocution risks.
- The risk associated with overhead electrical power crossings and shared line infrastructure, also creating the risk of electrocution.
- Exposure to hazardous gas and risk of asphyxiation within manholes.
- Infrastructure pole breakages during work operations.
- Working at heights on masts and towers (especially in remote areas and at night).
- Motor vehicle accidents and injuries.
- Conditions of occupational hygiene associated with indoor activities such as noise, ventilation, and air quality.
- Exposure to crime and violence (hijacking).

Telkom regrettably reports the death on duty of four employees for the year ended March 31, 2004, all as a result of motor vehicle incidents (2003:10).

During the year ended March 31, 2004, 1,746 incidents were reported, an increase of 3% over the previous year. However, the number of days lost decreased significantly from 16,916 to 14,654. Lost Time Incident Frequency Rates (LTIFR) are classified within two categories of serious and less serious. These are reported as 0.04 incident per 100 employees per 200 000 hours worked for serious loss of time and 1.72 for less serious incidents with lost time incurred.

Lost Time Incident Frequency Rates (LTIFR)

	Year ended March 31, 2003	2004
Serious (Section 24 OHSA)	0.39	0.04
Less serious	1.96	1.72

SHE performance table

	Year ended March 31, 2003	2004
Number of reported incidents	1,698	1,746
Number of days lost	16,916	14,654
Cost of incidents lost days (R million)	20.3	17.7
Compliance with SHE targets (%)	80.5	87.0

The reduced severity and frequency rates are encouraging as this indicates a 60% reduction since the implementation of the IPP.

Telkom has outsourced many of its risk-related work activities but retains the risk liability. It has therefore established stringent conditions of work and service level agreements for all agents and principal contractors. These are monitored quarterly and an integrated measurement and reporting standard is being established in light of the newly promulgated construction regulations.

Since contractors may be exposed to a variety of safety and health risks and hazards, Telkom insists that training on all relevant aspects is completed, after which a detailed audit is conducted.

Environmental management

Environmental risks and hazards are largely associated with aspects such as waste management, hazardous material management and network infrastructure build and maintenance activities in sensitive environments. Special attention is given to the following aspects:

- Storage and disposal of hazardous waste
- Waste separation and sewer water management
- Operations in manholes
- Environmental impact assessments and compliance with the conditions set out in records of decision.

Telkom did not record any significant environmental incidents during the year and attributes this to established programmes within line management, as well as with contractors and other service providers. Through agreements with external contractors, a total of 107 metric tons of standby batteries were recovered and disposed of. During the same period Telkom disposed of 348.4 metric tons of fibre optic cable through an approved vendor and certified processes.

Telkom believes that for its employees to perform efficiently and productively, their physical work area and premises must be conducive to physical well-being. Hygiene factors such as indoor air quality, noise and lighting could impede and reduce performance through the occurrence of sick building syndrome.

A progressive indoor hygiene monitoring programme and system is being developed to effectively establish indoor hygiene standards (over and above legislative requirements) for all indoor work environments, and to institute corrective maintenance and improved standards that will enhance employees' well-being.

During the year, 380 surveys were conducted and approved indoor temperature and ventilation standards were established. Results from surveys have been utilised for corrective actions, especially in densely populated city indoor environments. Capital funding has also been approved to enhance statutory compliance in all Telkom buildings over the next 10 years.

Resource consumption

	Year ended March 31, 2004
Water (R million)	12.2
Water consumption (kilolitre million)	2.8
Electricity (R million)	196.8
Electricity (kilowatt hour million)	296
Electricity (kilovolt Ampere)	475,782
Sanitation (R million)	11.2

Health

Telkom has adopted an integrated approach towards employee health and well-being. The status of employee health cannot be confined exclusively to risk-related diseases such as HIV/AIDS, but must incorporate the spectrum of physical, psychological and socio-economic health.

Telkom engaged in a study to determine its Health Profile across the categories of physical (including HIV/AIDS), psychological and socio-economic health. The research drew on various data sources from 1998 to 2002 on Sick Absenteeism Rates, Frequency and Severity. Through a group of medical and health specialists a clinical analysis was done to diagnose and define precipitating factors so that findings and recommendations could be made.

As HIV/AIDS could potentially present a significant impact to Telkom, a separate actuarial study was conducted using death and disability diagnosis. In addition, a socio-economic survey was conducted to determine the socio-economic status of Telkom's employees and its relationship to HIV/AIDS.

Findings and recommendations from the Health Profile served to establish an integrated health baseline and to identify the areas attributable to absenteeism and disease diagnosis. Telkom has identified areas of improvement to enhance and sustain the profile, along with health policy and programmes to enhance employee well-being and minimise risks and contingent liability.

Telkom intends to apply the following interventions over the next three years, based on its integrated Health Profile:

- The integration of a health system and strategy that will promote employee well-being and manage the risks associated with sick absenteeism rates, frequency and severity.
- Deployed interventions on chronic and acute diseases.
- Enhancement of the employee assistance programme.
- Broadening the HIV/AIDS strategy to cater for support and care.
- System and data enhancements to assist in measuring, diagnosing and applying health interventions and improvements.

During the year, Telkom undertook an intensive Health Awareness campaign, called "Know Your Health Status".

It encouraged employees to take ownership of their total health status by attending voluntary medical screening tests. A total of 6,598 employees (approximately 20% of the workforce) participated. This campaign is being continued throughout all Telkom's health initiatives to emphasise that health is a two-way responsibility, both for the Company and employees.

HIV/AIDS

Telkom was one of the first organisations in corporate South Africa to introduce an HIV/AIDS response programme, which has been vigorously applied across its business through awareness, education and prevention. During the year, Telkom entered into a service level agreement with its facilities management company (TFMC) to distribute condoms in a more effective and efficient manner.

According to the independent actuarial study referred to earlier, Telkom's HIV/AIDS prevalence rate is at 9.6%, expected to peak in 2006 at 11.4%. This prevalence rate is considerably lower than the estimated South African average. This is largely due to Telkom's early start in managing the challenge, as well as to its predominantly skilled to semi-skilled workforce, translating into an above average socio-economic profile. To further strengthen the HIV/AIDS strategy, the emphasis will fall on providing support and care, peer education, voluntary counselling and treatment programmes.

Volunteering freely

The HIV/AIDS response programme has encouraged employees, divisions and service organisations to volunteer and affiliate with HIV/AIDS orphanages and support and care groups. The corporate SHE Management team has adopted the Mohau Centre in Atteridgeville, Pretoria and collects items of clothing and groceries for resale through the centre. The Telkom Chairman, CEO, HR Group Executive and certain Senior Managers each sponsored an orphan who started school during 2004. A number of new institutions have been selected and many more Telkom employees will be supporting this worthy cause.

SHE learning and development

SHE learning and development is critical as a platform for instilling basic standards for employee practices and behaviour. The focus is on empowering employees to recognise risks and impacts and to develop risk reduction strategies and plans, through job observation techniques and knowledge reviews.

During the year SHE learning days increased to a total of 19,466 days (2003: 15,898 days), with an average attendance rate of 83%. This equates to 14,304 employees and 136,192 hours of training over 12 months.

During the coming year, expanded learning strategies will be applied, based on a behaviour-based approach and aimed at reducing "at risk" and "substandard" behaviours.

SHE management system

The integrated Telkom SHE management system was certified to ISO14001 and OHASAS 18001 standards through an independent and international certification body on November 13, 2003. This certification involved external and subjective verification of the SHE Management System's ability to identify SHE risks and hazards, as well as an in-house review of the skills and competencies of all SHE consultants and specialists.

Corporate social investment

The Telkom Foundation's Corporate Social Investment programmes are an integral element of the Company's commitment to the principles of corporate citizenship.

The Telkom Foundation

As an autonomous legal entity of Telkom SA Limited with its own Board of Trustees and Chief Executive Officer, the Telkom Foundation manages a range of funded projects. The primary objective is to contribute to the transformation of disadvantaged communities through sustainable development programmes.

The Foundation operates according to a number of key principles. These are:

- The development of a technology-rich society in South Africa, emphasising Information and Communication Technologies (ICT).
- A commitment to skills development and to working with stakeholders from previously disadvantaged communities and groups of people with disabilities.
- The involvement of Telkom staff in ongoing social investment projects.
- A commitment to use previously disadvantaged individuals and black economic empowerment initiatives as service providers, in line with Telkom's broader policy on Black Economic Empowerment.

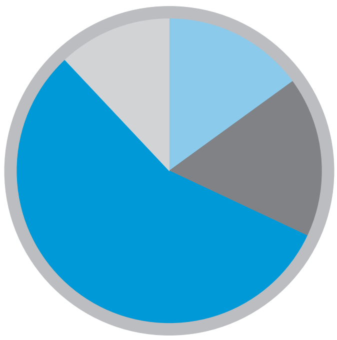
Foundation activities are targeted towards the following focus areas:

- Education and training, especially in the fields of mathematics, science and technology. These areas are of strategic and economic importance to South Africa.
- ICT planning and infrastructure roll-out, particularly the planning and provisioning of networked computer laboratories with internet connectivity. This includes assistive devices at special schools and computer peripherals such as printers and scanners.
- The empowerment of women, children and people with disabilities by building knowledge and skills that promote their independence and sense of self-worth.
- General projects, including Adopt-a-project, an initiative calling on members of top management to personally support and devote their time and skills to a deserving project that fits the Telkom Foundation's investment profile, donations and disaster relief strategy.

The Telkom Foundation spent R40.5 million (2003: R37.7 million) in the year ended March 31, 2004.

Budget distribution

March 31, 2004



Achievements during the past year

Education and training

Maths and Science Teacher of the Year

The Maths and Science Teacher of the Year Award is a competition that recognises outstanding mathematics and science teachers from the public schools system. Teachers are nominated for their contributions to teaching, popularising and instilling passion for these subjects.

Believing that proficiency in the areas of mathematics, science and technology will eventually result in a more skilled and more productive workforce, the Telkom Foundation enables learners to access technologies such as computers and the Internet.

The past year saw the Telkom Foundation partnering with the Shuttleworth Foundation to produce a resource book for teachers on investigative methods for teaching mathematics. The Telkom Foundation also increased the value of prizes offered in the competition as a way of attracting the participation of more educators.

Rally to Read

Since 1999, the Telkom Foundation has participated in the project by purchasing educational books which are delivered to selected schools annually. As part of the sponsorship, schools receive training from Read on using the books.

During the past year, books were delivered to schools in eight of the nine provinces. The Foundation visited schools in seven provinces where educators are participating in a three-year development programme.

Sunday Times ReadRight

The Foundation supports the Sunday Times' ReadRight supplement. Teacher training workshops are conducted to support teachers in using the supplement to enhance classroom teaching and learning.

This year, the project was extended through the introduction of the Technosuss Competition. Each of the 50 participating schools received materials and training on water conservation and recycling.

Most Improved School Awards project

The project supports the most-improved schools award conducted by the Department of Education. The Foundation sponsors the technology category by awarding computers as prizes to the winner and runners-up. Prizes were increased to 20 computers for the first-placed school, and 15 each for the first and second runner-up. These schools will also have the opportunity to become Foundation-supported schools.

Sediba

For this project, the Foundation supports mathematics and science teacher training and development in conjunction with the University of North-West. A total of 312 diplomas have been awarded since 1997 and the annual pass rate for participants is 80%.

Ikateleng

The University of North-West offers Saturday classes to improve the overall examination results of learners so that they can meet the admission requirements of tertiary institutions. The project focuses on problem areas in the curriculum and so emphasises mathematics and the natural and economic sciences. A total of 1,500 learners benefit.

Telkom Foundation Saturday School

Through the Saturday School, tutorial classes in mathematics, science and English are provided free of charge to learners at selected schools around the country. The Foundation provides resources for these classes, as well as incentives for participating educators in the form of a nominal stipend.

The Saturday Schools project has been successfully implemented in 30 schools in five provinces.

ICT planning and infrastructure roll-out

Telkom Foundation Special Schools

In line with Government's White Paper 6 on inclusive education, the Department of Education has identified 30 Special Schools for the pilot phase of a programme aimed at empowering learners with disabilities through technology.

The Foundation has partnered with the Department to equip these schools with ICT resources relevant to the needs of learners with disabilities by March 2006. During the year, 11 special schools from various provinces were equipped, bringing the total number of these centres to 20. The Foundation is confident that the project can be completed ahead of the target date, and plans to equip the remaining 10 schools by March 2005.

The resource centres will be enhanced over the next two years by increasing the subsidy for internet provision and providing further training for teachers, as well as by adding equipment such as data projectors.

Dinaledi
To improve the quality of mathematics and science education, the Foundation is partnering with the Department of Education in equipping 102 identified node schools with ICT resources. During the year, 40 Dinaledi schools from various provinces were completed, bringing the total number to 75.

The Foundation aims to complete the project by 2005. The resource centres will be enhanced through the same facilities as the Special Schools.

Super Centres
Since 2000, 100 schools have received computer networks and dialup internet connectivity. During the year, the servers at all Super Centres were replaced and plans were made to enhance facilities along the same lines as the other Telkom Foundation Schools. Foundation support will continue until 2006.

Empowerment

Childline SA
The Foundation sponsors the organisation's toll-free service, which provides counselling and information to victims of child abuse.

During the year all Childline call centres were equipped with advanced technology for the management of accurate statistics. Such information assists Childline and similar organisations with service planning, delivery and evaluation. Rural areas benefiting from Childline services include Port Shepstone, Ndwedwe and Msinga in KwaZulu-Natal.

Childline services have also been extended to Eco-access twining camps – a project that brings together disabled and non-disabled learners from Telkom Foundation-supported schools. Camps were held in Gauteng, North-West, Mpumalanga and KwaZulu-Natal.

Stop Women Abuse Helpline
The Foundation sponsors Life Line, South Africa's toll-free telephone service, offering information and counselling services to victims of women abuse and violence.

Ucingo
This project seeks to empower women and youth in rural areas. The Foundation supplies waste copper wire to groups of women and youth who are master weavers and also provides training in business skills and marketing.

The groups in Mpumalanga, Free State and KwaZulu-Natal received training in advanced weaving, business skills and crime prevention. A new group in the Eastern Cape was identified and has received training in basic weaving.

Community Centres
Resources such as computers, printers, fax machines and photocopiers are provided to identified community centres in disadvantaged communities. Seven community centres were identified and equipped in the Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Mpumalanga and Limpopo.

The Foundation has formed a partnership with the Youth Development Trust and is negotiating with the Department of Communications to establish community centres at the Government's Multipurpose Community Centres (MPCCs) during 2004.

Eco-access twining project
The project builds bridges between disabled and non-disabled people through twining camps by promoting common understanding.

Tlamelang School for the Physically Disabled
The school provides formal education, skills training and accommodation to physically disabled learners. With Foundation assistance, it has purchased physiotherapy, clinic and handiwork equipment, as well as industrial washing machines.

Be-A-Friend Foundation
The organisation's Dube Safe House in Soweto caters for the needs of abandoned and abused children, especially babies and toddlers. Foundation funding enabled the House to continue operating in 2003/2004.

Remme-Los Quadriplegic Centre
The centre accommodates quadriplegics who generate income by using computer-based voice recognition

technology. The Foundation donated voice recognition computers and training to the value of R228,000.

Peninsula Technikon Women in Leadership Programme

Managed by the Peninsula Technikon, this project involves all tertiary institutions in the Western Cape and enables female students to develop their leadership potential.

The programme was launched in March 2004, when the participants were given the opportunity to interact and network with prominent South African leaders. The Foundation donated an amount of R148,000.

Take A Girl Child To Work Day Initiative

This annual event encourages companies to invite girl children to the workplace, exposing them to traditionally male-dominated careers and encouraging them to pursue tertiary level studies. Twenty girls from 10 Foundation-supported schools were hosted.

Fahlosanang Bakgaga Centre

The centre offers educational programmes to disabled children and trains their mothers and other disabled women to generate income. In 2003 the project focused on 15 women and 20 children. The Foundation donated R65,000 for the implementation of educational programmes.

Place of Hope

The organisation identifies and assists abused women and children. The children receive counselling while the women receive both counselling and skills training. On completing the training, these women are assisted to find jobs. In 2003/2004 15 women were assisted in this way. An amount of R55,000 was donated for counselling and skills training.

Deaf Child Centre Classes

A school in Cape Town provides sign language classes to deaf learners from pre-school level upwards. During the year, the Foundation subsidised transport to and from the school for 28 learners.

General projects

Adopt-a project

Examples of projects undertaken by Telkom's top management team include:

- Mobani Primary School in Lydenburg, where learners received 44 bicycles to ease the long home-to-school distance. The Telkom Foundation also donated two battery-operated radios and four green chalk boards.
- Sephola-Banatso Middle School in the North-West, which received an internet-equipped computer laboratory. The donation included two public telephones, security fencing and improved ablution facilities. This was undertaken in partnership with Rand Water Supply.
- Isibukosezwe High School in KwaZulu-Natal was equipped with networking infrastructure and internet access. The technology will enable the school's approximately 1,260 learners to become computer literate and to use the internet as a life skills tool.
- Bakubung Primary School in the Magaliesburg received 20 computers with internet connectivity via satellite, as well as a radio and television set.

Ad hoc

A total of 39 ad hoc projects were funded during the year. Disaster relief was conducted in the Western Cape, KwaZulu-Natal, Limpopo and North-West provinces.

Sponsorships

Telkom has a clear sponsorship strategy, centred on a programme of national sporting and cultural events designed to support talented South Africans while positively promoting the Telkom brand.

Proudly South African

The sponsorship is in its third year. Telkom is committed to Proudly South African, an organisation established to create jobs, increase demand for South African products and services, and encourage companies to improve their quality and competitiveness.

Old Mutual Telkom National Choir Festival

The primary focus of the festival is to identify talent and develop choirs and musicians to their full potential. Telkom's involvement entrenches our commitment to the growth and development of arts and culture in South Africa.

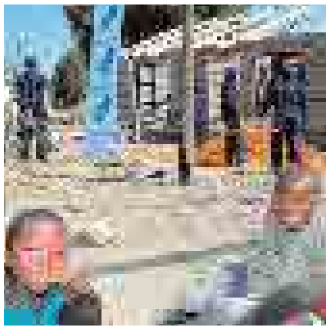
Telkom Charity Cup

Funds raised through this premier soccer league event are donated to charities working with elderly or infirm people, abused and orphaned children, and people with disabilities. The 2003 tournament raised a record amount of more than R2 million for 57 charities.

Telkom Learn To Swim programme

Approximately 23,000 children received basic skills training and took part in recreational galas as part of the Telkom Learn To Swim programme, offered in

Telkom strongly identifies with the ideals of dedication, achievement and excellence represented by the Olympic Games. This synergy comes to life in our sponsorship of the South African Olympic team.



conjunction with Swimming South Africa. Partnerships promoting water safety have been formed with local authorities and provincial governments across the country.

Golf sponsorships

Telkom's sponsorship of the Professional Golf Association (PGA), the oldest event on the Sunshine Tour, represents an important brand positioning opportunity for Telkom Business. To develop this fast-growing sport, the Company also sponsors two Pro Range golf academies, and is a sub-sponsor of the Nedbank Ladies Professional Golf Tour, in which South Africans compete with international players.

2010 World Cup bid

In May 2003, Telkom announced its sponsorship of South Africa's successful bid to host the 2010 Soccer World Cup. Telkom's involvement will continue through to 2010.

The Vodacom Foundation

Established in 1999 to coordinate Vodacom's community upliftment efforts, the Vodacom Foundation has invested more than R180 million over the past few years, of which R30.6 million was spent during the year under review (2003: R20.3 million) to alleviate the effects of social deprivation, particularly in disadvantaged communities. Its main focus areas are education, health and welfare, and safety and security and, to a lesser extent, arts and culture, community sports and the environment. Apart from its work among South African communities, the Vodacom Foundation contributes to community upliftment in the Democratic Republic of Congo, Tanzania and Lesotho.

Vodacom's detailed report on Corporate Social Investment is in the Vodacom Annual Report 2004 available on the Telkom Investor Relations website, www.telkom.co.za/ir.

Five-year financial review

Year ended March 31,	2000	2001	2002	2003	**2004**	2004 USD	4 Year CAGR (%)
Amounts in accordance with IFRS	(in ZAR millions, except percentages and per share amounts)						
Income statement data							
Operating revenue	27,015	31,243	34,087	37,507	**40,795**	6,455	10.9
Operating expenses (including depreciation)	23,728	26,451	30,039	31,226	**31,805**	5,032	7.6
EBITDA	8,082	10,315	10,044	13,012	**16,337**	2,585	19.2
Operating profit	3,908	4,984	4,191	6,514	**9,088**	1,438	23.5
Profit before tax	2,041	2,405	2,153	2,784	**6,303**	997	32.6
Profit after tax	1,540	1,690	1,280	1,735	**4,592**	726	31.4
Net profit	1,527	1,622	1,221	1,630	**4,523**	715	31.2
Number of ordinary shares outstanding	557	557	557	557	**554**	554	(0.1)
Basic earnings per share (cents)	274	291	219	293	**812**	129	31.2
Dividends per share (cents)	60	–	–	–	**90**	14	10.9
Balance sheet data							
Total assets	47,276	53,537	55,316	53,229	**52,984**	8,384	2.9
Current assets	11,010	12,674	10,997	9,921	**11,061**	1,750	0.1
Non-current assets	36,266	40,863	44,319	43,308	**41,923**	6,634	3.7
Total liabilities	33,879	38,449	38,351	34,687	**30,726**	4,862	(2.4)
Current liabilities	14,382	15,314	12,765	14,197	**14,443**	2,286	0.1
Non-current liabilities	19,497	23,135	25,586	20,490	**16,283**	2,576	(4.4)
Shareholders' equity	13,350	14,972	16,832	18,348	**22,058**	3,490	13.4
Total debt	21,974	26,268	25,509	22,492	**17,176**	2,718	(6.0)
Net debt	18,837	21,601	21,966	20,171	**13,362**	2,114	(8.2)
Cash flow data							
Cash flow from operating activities	4,917	6,165	8,171	9,748	**13,884**	2,197	29.6
Cash flow used in investing activities	(9,107)	(9,964)	(9,250)	(5,731)	**(5,423)**	(858)	(12.2)
Cash flow (used in)/from financing activities	5,051	3,439	66	(3,026)	**(6,481)**	(1,025)	–
Capital expenditures excluding intangibles	9,461	9,889	9,004	5,712	**5,307**	840	(13.5)
Operating free cash flow	(3,810)	(3,799)	(1,079)	4,042	**9,009**	1,425	–
Financial ratios							
EBITDA margin (%)	29.9	33.0	29.5	34.7	**40.0**	40.0	7.5
Operating profit margin (%)	14.5	16.0	12.3	17.4	**22.3**	22.3	11.4
EBITDA/Finance charges (number of times)	3.3	3.3	3.9	3.1	**5.0**	5.0	10.9
Net profit margin (%)	5.7	5.2	3.6	4.3	**11.1**	11.1	18.1
Capital expenditure to revenue (%)	35.0	31.7	26.4	15.2	**13.0**	13.0	(21.9)
Return on assets (%)	10.0	10.2	6.6	10.5	**17.8**	17.8	15.5
Net debt to equity (%)	141.1	144.3	130.5	109.9	**60.6**	60.6	(19.0)

Five-year operational review

Year ended March 31,	2000	2001	2002	2003	**2004**	4 Year CAGR (%)
Amounts in accordance with IFRS						
Fixed-line financial data						
(Before inter-segmental eliminations)						
(in ZAR millions except percentages)						
Revenue	23,740	26,330	27,866	29,542	**30,906**	6.8
EBITDA	6,180	7,993	7,233	9,658	**12,454**	19.1
Operating profit	2,555	3,759	2,425	4,348	**6,471**	26.2
Capital expenditure	8,468	8,297	6,962	4,013	**3,862**	(17.8)
EBITDA margin (%)	26.0	30.4	26.0	32.7	**40.3**	11.6
Operating profit margin (%)	10.8	14.3	8.7	14.7	**20.9**	17.9
Capital expenditure to revenue (%)	35.7	31.5	25.0	13.6	**12.5**	(23.1)
Fixed-line operational data						
Fixed access lines (thousands)	5,493	4,962	4,924	4,844	**4,821**	(3.2)
Fixed-line penetration rate (%)	12.8	11.4	11.1	10.7	**10.4**	(5.1)
Revenue per fixed access line (ZAR)	3,859	4,287	4,722	4,987	**5,169**	7.6
Total fixed-line traffic (millions of minutes)	31,127	32,863	33,084	32,868	**32,942**	1.4
Managed network sites	3,138	4,634	5,684	7,729	**9,061**	30.4
Retail internet customers	23,205	37,122	48,995	98,690	**142,208**	57.3
Fixed-line employees	49,128	43,758	39,444	35,361	**32,358**	(9.9)
Fixed lines per fixed-line employee	112	113	125	137	**149**	7.4
Mobile financial data (50% of Vodacom)						
(Before inter-segmental eliminations)						
(in ZAR millions except percentages)						
Revenue	4,786	6,638	8,075	9,890	**11,739**	25.1
EBITDA	1,731	2,095	2,851	3,354	**3,883**	22.4
Operating profit	1,182	1,277	1,816	2,166	**2,617**	22.0
Capital expenditure	993	1,592	2,042	1,699	**1,445**	9.8
EBITDA margin (%)	36.2	31.6	35.3	33.9	**33.1**	(2.2)
Operating profit margin (%)	24.7	19.2	22.5	21.9	**22.3**	(2.5)
Capital expenditure to revenue (%)	20.7	24.0	25.3	17.2	**12.3**	(12.2)
Mobile operational data – South Africa						
South African mobile customers (thousands)	3,069	5,108	6,557	7,874	**9,725**	33.4
Mobile market share (%)	59.0	61.0	61.0	57.0	**54.0**	(2.2)
Mobile penetration (%)	12.1	19.1	24.2	30.2	**39.0**	34.0
Total mobile traffic (millions of minutes)	5,669	7,472	8,881	10,486	**12,297**	21.4
Mobile ARPU (ZAR)	266	208	182	183	**177**	(9.7)
Mobile employees	4,048	4,102	3,859	3,904	**3,848**	(1.3)
Mobile customers per mobile employee	758	1,245	1,699	2,017	**2,527**	35.1
Mobile operational data – Other African						
Other African mobile customers (thousands)	12	104	306	773	**1,492**	233.9

Operational overview

Fixed-line overview

The fixed-line segment is the largest business segment and includes fixed-line voice, data, directory services and wireless data services businesses. We are the incumbent fixed-line operator in South Africa.

Subscriptions and connections

The following table sets forth information regarding postpaid and prepaid lines and payphones as of the dates indicated, including internal lines.

	As of March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
	(in thousands, except percentages)				
Postpaid PSTN[1]	3,554	3,285	3,134	(7.6)	(4.6)
Business	1,578	1,494	1,463	(5.3)	(2.1)
Residential	1,976	1,791	1,671	(9.4)	(6.7)
Prepaid PSTN[1]	708	817	856	15.4	4.8
ISDN channels	467	563	656	20.6	16.5
Payphone[2]	195	179	175	(8.2)	(2.2)
Fixed access lines[3]	4,924	4,844	4,821	(1.6)	(0.5)

(1) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.
(2) Includes public and private payphones.
(3) Total fixed access lines are comprised of PSTN lines, including ISDN channels, public and private payphones and internal lines in service. Telkom had 140,950, 134,972 and 162,460 internal lines as of March 31, 2004, 2003 and 2002, respectively. Each PSTN line includes one access channel, each basic ISDN line includes two access channels and each primary ISDN line includes 30 access channels.

During the three years ended March 31, 2004, total fixed access lines were adversely impacted by customer migration to mobile services and lower connections, as well as high disconnections due to customer non-payments primarily in the 2002 and 2003 financial years. The decrease in postpaid PSTN lines was partially offset by an increase in postpaid ISDN channels and prepaid lines. The highest level of disconnections due to customer non-payments occurred primarily in the 2002 and 2001 financial years and resulted largely from the fixed access lines rolled out in impoverished areas in accordance with the targets contained in the licence and the consequent non-payment by a number of these customers. A number of measures were instituted aimed at reducing bad debts, including implementing a more rapid disconnection policy for non-payments, continuing and improving credit vetting and controls, implementing usage limits based on customer credit limits, instituting a better collection programme, continuing to promote our prepaid fixed-line services and encouraging non-paying customers to migrate to prepaid services.

The following table shows information related to the number of fixed access lines in service, net line growth and churn for the periods provided. Churn is calculated by dividing the number of disconnections by the average number of fixed access lines in service during the period.

		As of March 31,		2003/2002	2004/2003
	2002	2003	2004	% change	% change
		(in thousands, except percentages)			
Opening balance	4,962	4,924	4,844	(0.8)	(1.6)
Net line growth	(38)	(80)	(23)	(110.5)	(71.3)
Connections	1,037	936	819	(9.7)	(12.5)
Disconnections	(1,075)	(1,016)	(842)	(5.5)	(17.1)
Closing balance	4,924	4,844	4,821	(1.6)	(0.5)
Churn (%)	21.7	20.8	17.4	(4.1)	(16.3)

Connections include new line orders resulting primarily from changes in service and, to a lesser extent, new line roll-out. Disconnections include both customer initiated disconnections and Telkom initiated disconnections. Included in disconnections and churn are those customers who have terminated their service with Telkom and subsequently subscribed to a new service with Telkom as a result of relocation of premises or change of subscription to a different type of service. The decrease in churn over the three years ended March 31, 2004 is directly related to the lower level of disconnections, partially offset by the lower number of fixed access lines in service, real estate development contracts in affluent areas, changes in credit policies, get-connected campaigns and lengthened prepaid suspension time.

Telkom also offers telecommunications equipment sales, such as telephones and private branch exchange systems, or PABX systems, related post-sales maintenance and service for residential and business customers in South Africa. During the 2004 financial year, Opticon, the voice over internet protocol PABX product, was launched. The market in South Africa for such equipment and systems, commonly known as customer premises equipment, is characterised by high competition and low profit margins. The supply and servicing of customer premises equipment is an essential element of providing a full service to customers.

Traffic

The following table sets forth information regarding our fixed-line traffic, excluding interconnection traffic, for the periods indicated. Fixed-line traffic is calculated by dividing fixed-line traffic revenues for the particular category by the weighted average tariff for such category during the relevant period.

		Year ended March 31,		2003/2002	2004/2003
	2002(2)	2003	2004	% change	% change
		(millions of minutes, except percentages)			
Local(1)	20,538	20,396	20,547	(0.7)	0.7
Long distance	4,747	4,728	4,616	(0.4)	(2.4)
Fixed-to-mobile	4,364	4,135	3,980	(5.2)	(3.7)
International outgoing	374	439	427	17.4	(2.7)
International voice over internet protocol	–	–	25	–	–
Traffic	30,023(2)	29,698	29,595	(1.1)	(0.3)

(1) Local traffic includes internet traffic.

(2) In the 2003 financial year, we revised the calculation of the weighted average tariffs for certain prepaid calls and our ShareCall product. We have recalculated the traffic for the 2002 financial year accordingly. Calculated on the original basis, total traffic, excluding interconnection, was 29,912 millions of minutes in the 2002 financial year.

Traffic was adversely affected by a decrease in the number of fixed access lines in service during the three years ended March 31, 2004 primarily as a result of customer migration to mobile services and disconnections due to customer non-payments as well as lower connections primarily in the years ended March 31, 2003 and 2004. In addition, traffic was adversely affected by the increasing substitution of calls placed using mobile services rather than our fixed-line services. A number of measures have been implemented to stem the decline in traffic minutes, including increasing the sale of voicemail accounts to approximately 968,000 as of March 31, 2004, introducing new calling products and services, such as launching Xtratime in March 2004, and continuing our rate education campaigns to highlight the price advantages of fixed-line calls.

Long-distance traffic was also adversely affected by increases in sales of the SmartAccess products in the financial years ended March 31, 2003 and 2004, as well as the fact that fixed-line long-distance traffic tariffs were historically higher than the price of mobile calls, which are not distance dependent. Long-distance traffic tariffs have been reduced to below mobile tariffs over the past six years as a result of the traffic rebalancing programme and continued education to the market on fixed-line tariffs. The decrease in fixed-to-mobile traffic in the years ended March 31, 2003 and 2004 was primarily due to an increase in the number of mobile subscribers, resulting in increased mobile-to-mobile traffic and less fixed-to-mobile traffic and an effective 15.5% increase in tariffs in November 2001 and a weighted average 5.5% increase in tariffs in January 2003. International outgoing traffic decreased in the 2004 financial year mainly due to the substitution of fixed-line calls with mobile calls, and increased in the 2003 financial year primarily due to lower effective tariffs and increased marketing efforts. During the 2004 financial year, voice over internet protocol service was launched to 14 of our major international call centre customers.

Interconnection services

The following table sets forth information regarding interconnection traffic terminating on or transiting through our network for the periods indicated. Interconnection traffic, other than international outgoing mobile traffic and international interconnection traffic, is calculated by dividing interconnection revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the actual traffic registered through the respective exchanges and reflected in international interconnection invoices.

	Year ended March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
	(millions of minutes, except percentages)				
Domestic mobile interconnection traffic(1)	2,008	2,099	2,159	4.5	2.9
International interconnection traffic(2)	1,053	1,071	1,188	1.7	10.9
Interconnection traffic	3,061	3,170	3,347	3.6	5.6

(1) Domestic mobile-to-fixed interconnection traffic is calculated by dividing total domestic mobile-to-fixed interconnection traffic revenue by the weighted average domestic mobile-to-fixed interconnection traffic tariff during the relevant period.
(2) International interconnection traffic is based on the actual traffic registered through the respective exchanges and reflected on invoices.

Our leading market position and our strong brand recognition enable us to successfully meet competition in the fixed-line market.

The increase in domestic mobile interconnection traffic in the years ended March 31, 2003 and 2004 was primarily due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing the fixed-line network.

International interconnection traffic consists of international termination traffic and international transiting traffic. International interconnection traffic increased in the years ended March 31, 2003 and 2004 primarily due to growth in the international market, partially offset by aggressive competition from other international carriers and Sentech.

Data communications services

Data transmission services

We provide the connection of information technology applications over wide area networks. These services include leased lines and packet-based services. We have a growing portfolio of data transmission products tailored to different customer needs from high bandwidth mission critical applications to low bandwidth best effort applications. We also offer our customers tailor-made cost effective customer specific solutions.

Leased lines. We are presently the sole provider of national and international leased lines in South Africa. Leased lines are fixed connections between locations, which are secure and exclusive to the user, and are mainly used for high volume data or multimedia transmission. Leased lines are our principal data transmission service and include Diginet, Diginet Plus and Megaline services. We also provide leased lines to broadcasters for audio and video services. Our leased line customers pay an initial installation charge and a recurring fee based on the type, length and capacity of the leased line. In recent years, leased line charges have increased only slightly, but in real terms our prices have reduced. However, we expect that competition will result in further pressure on prices in the future.

With the growth in traffic carried on the mobile networks, a need was identified for the deployment within these networks of transmission links with transmission speeds higher than the 2Mbit/s provided by existing agreements. We entered broadband fixed link leasing agreements with Vodacom and MTN in the 2004 financial year and have currently negotiated a similar agreement with Cell C. These agreements offer speeds of 45 Mbit/s and 155 Mbit/s and include formalised service level agreements and a term and volume discount structure, as a counter to the competitive challenges that are expected to occur in this area of the business.

The following table sets forth the bandwidth capacity of Diginet, Diginet Plus, Megaline and broadcasting data transmission services:

Leased line	Bandwidth
Diginet	9.6 Kbit/s to 64 Kbit/s
Diginet Plus	128 Kbit/s to 2 Mbit/s
Megaline	2 Mbit/s to 155 Mbit/s
Broadcasting	
Audio	64 Kbit/s
Video	34 Mbit/s

ADSL Services. ADSL allows the provisioning of high speed connections over existing copper wires using digital compression. ADSL transmits signals at speeds of 512 Kbit/s per second downstream and 256 Kbit/s per second upstream. We now offer a new ADSL package, including a free modem, with a 24-month contract.

Packet-based services. Packet-based services are based on a statistical multiplexing technique that allows customers to share bandwidth more cost effectively based on a virtual private network concept. Our packet-based services include packet-switched services, frame relay services, asynchronous transfer mode services and internet protocol services.

The asynchronous transfer mode based services include ATM Express, which we launched in 2002, and Megaline Plus. ATM Express provides digital transmission services for wide area networks at speeds from 2 Mbit/s per second up to 155 Mbit/s. ATM Express provides a medium for companies to transmit high volumes of information at high speeds over their wide area network with high quality and reliable connections. Voice, video and data applications can be supported simultaneously over a connection. Megaline Plus is a broadband service providing for the carrying of voice and video at a constant bit rate across our asynchronous transfer mode network. ATM Express and Megaline Plus serve as an integral component of our integrated virtual private network service offering that allows for the convergence of voice, data, video, e-commerce and web services across a single access medium over our network. We expect our asynchronous transfer mode based service revenue to grow as a result of customers' growing demand for bandwidth, flexibility and reliability.

The primary internet protocol data transmission products, ViPLink and ViPDial have been superseded by our flagship IP-based VPN product, branded VPN Supreme. On the international front we have invested in an internet protocol and voice-over internet protocol network and launched a regional clearinghouse to serve as a hub for voice traffic on the African continent. We intend to launch additional internet protocol data transmission products in the future.

Managed data networking services

The managed data networking services combine our data transmission services discussed above with active network management provided from our state-of-the-art national network operations centre. We offer a wide range of integrated and customised networking services, including planning, installation, management and maintenance of corporate wide data, voice and video communications networks, as well as other value-added services, such as capacity, configuration and software version management on customers' networks. To support our service commitment, we offer guaranteed service level agreements on a wide range of our products, which guarantee availability, or uptime, of the network, through the use of our national network operations centre.

The managed data networking services include our customer network care service, which facilitates the network management of all our data transmission services using the leased lines or packet-based services discussed above, and our Spacestream and IVSat products, which are satellite based products. Spacestream is a high quality, flexible satellite networking service that supports data, voice, fax, video and multimedia applications, both domestically and into the rest of Africa.

	As of March 31,			2003/2002	2004/2003
	2002	2003	2004	% change	% change
	(number of sites, except percentages)				
Terrestrial-based	2,139	3,511	4,794	64.1	36.5
Satellite-based	3,545	4,218	4,267	19.0	1.2
Managed network sites	5,684	7,729	9,061	36.0	17.2

Global services

Our portfolio of global international products consists of a number of different products. We have international private line circuits, which are our Diginet equivalent to international destinations with bandwidths ranging from 9,600 bit/s up to 155 Mbit/s. The international private line circuits use both cable infrastructures, such as submarine cables, or satellite infrastructure. This product is complemented by our three global alliances with Infonet, Equant and BT, which are used to offer customers connectivity based on these companies' global networks. Our global alliances have coverage throughout the world and it is easier for customers to use them from an ordering, installation and support point of view, as they have physical presence or formally appointed partners in each country. Due to the packet-based nature of these global networks, the cost efficiencies inherent in these networks can be passed on to customers to ensure more affordable services.

Internet access services and other related information technology services

Internet access services. We are one of the leading internet access providers in South Africa in the wholesale internet access provision market and are focused on growing our position in the retail internet access market. We also package our Telkom*Internet* product with ADSL and ISDN services, as well as our newly introduced satellite access products, SpaceStream Express and SpaceStream Office.

In October 2003, Telkom*Internet* also became powered by satellite. This broadband based internet access offering was launched as a full commercial service. It is a VSat product offering that allows effective sharing of the satellite platform making the service more affordable. Following the successful introduction of Telkom*Internet* via satellite, Telkom is now expanding its SpaceStream Express product into Africa.

In January 2004 Telkom introduced a new online activation service which enables customers to order their Telkom*Internet* service and connect within minutes.

The following table sets forth information regarding our wholesale and retail internet services and customers as of the dates indicated.

	As of March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
Wholesale					
Internet leased lines	778	1,156	1,687	48.6	45.9
Internet leased lines (equivalent 64 Kbit/s)	2,876	4,635	7,588	61.2	63.7
Dial-up ports	8,557	12,411	14,329	45.0	15.5
Retail					
Internet customers	48,995	98,690	142,208	101.4	44.1

Our wholesale internet services are billed on a bandwidth basis while our retail internet services are billed on a monthly subscription basis. We also generate fixed-line traffic revenue from internet traffic routed over our fixed-line network.

Information technology and related services

We have recently expanded our data offering to selected information technology services, including local area network services, data centre hosting services, managed infrastructure hosting, web application hosting, security services, disaster recovery and storage services and application service provider hosting. Our local area network services include structured cabling, local area network management services, local area network equipment supply and shared local area network applications. Our security services include firewalls, intrusion detection, certificate authority and virus protection.

We also offer e-commerce products and services, including electronic data interchange, hosted procurement market place, payment gateways, electronic storefronts, electronic bill presentment and message translation services. CyberTrade, our web based e-commerce service provider, provides users with a secure platform to perform online banking and stock market trading, to buy and sell goods and products from electronic merchants and to access critical information. During the 2004 financial year, we introduced an online bill service for residential and small business customers that enables them to control and manage their accounts more effectively. In September 2003, we introduced CyberTrade Mall, an electronic shopping portal that enables online shopping in a secure environment.

Directory and other services

Directory services. We own 64.9% of Telkom Directory Services, the largest directory publisher in South Africa providing white and yellow pages directory services and electronic white pages. As of March 31, 2004, Telkom Directory Services published approximately 7.46 million white and yellow directories. Telkom Directory Services also provides electronic yellow pages and value added content through full colour advertisements. Telkom Directory Services has improved the accessibility and distribution of the directories through door-to-door delivery and electronic media. We also provide national telephone inquiries and directory services.

Wireless data application services. We own 100% of Swiftnet, which operates under the name Fastnet Wireless Service. Fastnet is a wireless network providing asynchronous wireless access on our X.25 network, Saponet-P, to its customer base. Services include retail credit card and check point of sale terminal verification, telemetry, security and vehicle tracking.

Fees and tariffs

Tariff rebalancing

We have made significant progress since 1997 in rebalancing tariffs in our fixed-line segment in order to reduce the need for future tariff adjustments in the face of competition. Our tariff rebalancing programme has resulted in a decrease in the ratio of tariffs for long-distance calls to all destinations over 200 km compared to tariffs for local calls from 13.2:1 as of March 31, 1997 to 2.7:1 as of March 31, 2002. The weighted average effective price per minute to all international destinations decreased approximately 44% from January 1, 1998 to March 31, 2002. The ratio of tariffs for long-distance calls to all destinations over 200 km compared to tariffs for local calls was 2.6:1 as of March 31, 2004. By and large we have completed our tariff rebalancing programme and on January 1, 2003, we increased our long-distance tariffs by 12.5% based on the increase in the consumer price index for the twelve months ended September 30, 2002 and increased the average tariff to all international destinations by approximately 5.0%.

Tariff regulation

The Telecommunications Act, 103 of 1996, and regulations made under the Act impose a price cap formula on a basket of specified services that we previously had the exclusive right to provide, including installations; prepaid and postpaid line rental; local, long-distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; our Diginet product; and our Megaline product. Approximately 80% of Telkom's operating revenue in the year ended March 31, 2004 was included in this basket. Prices on these services are filed with ICASA for approval. Revenue from services in the basket may not be used to subsidise other products and services outside the basket. Currently, the overall tariffs for all services in the basket may not be increased by more than 1.5% below inflation in South Africa, based on the consumer price index and measured using revenue for the services in the basket at constant volumes for the prior year. In addition, the overall tariffs for a sub-basket of services provided to residential customers may not be increased by more than 1.5% below inflation in South Africa, based on the consumer price index and measured using revenue for the services in the basket at constant values for the prior year. In addition, prior to January 1, 2003, the price of any individual product or service included in the basket could not be increased by more than 20% above inflation in South Africa in any year. Effective January 1, 2003, the price of individual services in the basket may not be increased by more than 5% above inflation in South Africa in any year.

In December 2002, as a result of an out of court settlement related to our tariff increase in the prior year, ICASA approved our tariff filing providing for a 9.5% increase in the overall tariffs for all services in the basket effective January 1, 2003, based on the increase in the consumer price index for the twelve months ended September 30, 2002 of 12.5%. Statistics South Africa Limited subsequently revised the calculation of the consumer price index for the twelve months ended September 30, 2002 downward to 11.2%, although our tariffs were not affected. ICASA approved a 2.2% increase in the overall tariffs for all services in the basket effective January 1, 2004. ICASA has indicated its intention to conduct a review of the price control regime in 2004, however, a process and timetable for the review has not been announced.

Detailed tariffs are contained in the 20-F available on the Investor Relations website www.telkom.co.za/ir

Sales and marketing

We group our fixed-line customer base into the following three categories in order to more effectively target and service our customers:

- business customers;
- residential customers; and
- payphone customers.

Business customers

Business customers are comprised of global and corporate customers, business and government customers and wholesale customers. We have separate sales and marketing departments geared to each of the sub-categories within our business customer category. Our business customer category accounted for approximately 72% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2004 and approximately 43% of our total fixed access lines as of March 31, 2004.

Global and corporate

Global and corporate customers comprise over 200 of South Africa's largest financial, retail, manufacturing and mining companies with domestic and international operations as of March 31, 2004. Global and corporate customers accounted for approximately 15% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2004 and approximately 12% of our total fixed access lines as of March 31, 2004. We have increased our sales and marketing efforts aimed at our large global and corporate customers in order to continue to improve customer loyalty. We offer tailored packaged solutions and seek to enter into long-term relationships with our global and corporate customers in order to maintain our leadership position in this customer market. We market and sell our products and services to these customers primarily through

We are an integrated communications service provider of bundled voice, data, video and internet services with the expertise to continue expanding our service offerings.

corporate account managers, supported by a team of specialists in the field of pre-sales consulting, project management and post-sales service managers.

Business and government

Business and government customers comprise approximately 550,000 large, medium and small business and governmental accounts as of March 31, 2004. Government customers, including certain government-owned parastatal companies, accounted for approximately 9% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2004 and approximately 4% of our total fixed access lines as of March 31, 2004. We separately target the top 500 business customers within this category. We also offer tailored packaged solutions and seek to enter into long-term relationships with our customers in this category. In addition, we established a customer relation unit to focus on retaining business customers. We market and sell our products and services to these customers primarily through customer account managers and representatives, the Telkom Business Call Centre and Customer Service Branches. As of March 31, 2004, we had approximately 135 Customer Service Branches located throughout South Africa to assist our business customers in finding the products and end-user equipment that best fits their needs. We have seen increased demand for value added products by our business segment in the year ended March 31, 2004, such as Teleconferencing, SmartAccess and Intelligent Call Forwarding. In the 2004 financial year, we have been successful in signing our business customers to long-term service agreements. We have also been successful in growing our PABX and ADSL products and services in the business and government markets.

Wholesale

Wholesale customers comprise mobile operators, domestic licenced network operators, international operators and service providers and domestic value-added network service providers. We expect wholesale revenue from domestic operators to increase with the entrance of the Second National Operator and the further liberalisation of the South African telecommunications industry. Products sold to wholesale customers primarily include mobile and international voice termination services, data services and international transiting services. We also provide internet protocol services to internet service providers. We are currently focusing on developing wholesale products that cater for the needs of a more liberalised fixed-line market in terms of the second national operator and the underserviced area licencees in South Africa by providing interconnection and facilities leasing. We are also expanding our wholesale product portfolio to go into non-traditional markets outside of South Africa. Our marketing and sales strategy for the wholesale services market is to be the carrier of choice for other operators and the connectivity provider of choice for domestic and other African service providers. We believe our digital network both in South Africa and in our international undersea cables provides a solid foundation from which we can leverage these services. We continuously revisit destinations for wholesale voice termination services. We intend to focus on expanding our relationships with international operators and further increasing the penetration of our transiting and connectivity services to international operators, including other African operators, for traffic into and out of Africa.

Residential customers

Residential customers comprise both prepaid and postpaid residential customers using PSTN, ISDN and ADSL services. Residential customers accounted for approximately 25% of our total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2004 and approximately 54% of our total fixed access lines as of March 31, 2004. Prepaid residential customers accounted for approximately 33% of our residential fixed access lines as of March 31, 2004.

We are seeking to compete in the residential market by offering communication packages focused on improving convenience and security to enhance consumers' lifestyles, while at the same time increasing revenue per customer. We intend to continue to introduce calling plans that target high use customers and are designed to increase consumers' value for money. We conduct extensive advertising campaigns aimed at educating residential customers about our tariffs and price advantages. We market and sell our residential products through our customer call centres, Customer Service Branches, mobile vans, Vodacom's customer service branches, the South African Post Office, independent distributors and vendors and through telemarketing. We are focused on increasing the penetration of our ISDN and ADSL services to retail and high-end residential customers through targeted direct advertising to high internet usage subscribers. We have grown our consumer ISDN channels by more than 50% and Telkom*Internet* subscribers by more than 40% in the 2004 financial year. In the 2004 financial year, we also have implemented free reconnect services for customers who move from one location to another provided they reconnect within three months. We also grant a 50% discount to customers ordering a second line.

Payphone customers

Payphones comprise our public and private payphone units. Payphones accounted for approximately 3% of our total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2004 and approximately 4% of our total fixed access lines as of March 31, 2004.

In order to increase sales in our payphone services business, we seek to provide easy access to our services through the effective placement of our phones and phonecard outlets in high traffic areas. Our key focus area is the premier market, which includes municipalities, prisons, gas stations, shopping malls, taxi stands, bus stops and train stations. In furtherance of this goal, we target and enter into nationwide contracts with multi-location telephone providers to ensure wider distribution of our payphones. We market and sell our payphone products through our sales managers and representatives and sales call centres. In order to improve efficiencies in public services and telephony, Telkom implemented a quality management system in compliance with the South African Bureau of Standards (SABS) ISO9001:2000 standards, which was certified by the South African Bureau of Standards in 2003. The aim was to develop products and services based on these quality standards in an effort to grow and improve public telephony revenues and create a customer relations centre. Telkom's aim was also to provide a "one-stop-shop" for support to all our customers.

Customer care and service

Customer care is one of our top priorities. We offer a number of customer care initiatives tailored to our different customer segments. We allocate service managers to each of our global and corporate customers, who are responsible for ensuring that all new installations and repairs are performed in a satisfactory and timely manner. In addition, we have established a corporate customer call centre in Cape Town for our global and corporate customers, capable of making minor infrastructure changes from a single location. We also use professional programme managers to manage the implementation of complex network solutions. We offer service level agreements on a number of our existing data communications products where technology allows us to do so and our goal is to introduce service level agreements on all new data communications products in the future. We confer VIP status on each of our global and corporate customers and other selected customers that allows them direct access to key people within our organisation to ensure quick resolution of any problems they may have regarding our products and services.

We initiated an ambassador programme in 2000 for our medium and small business customers. Under this programme, participating managers each adopt a few business customers and act as a single point of contact for those customers in the event of any problems with our products and services. In addition, our Telkom Business Centre provides customer support for our medium and small business customers. We also offer service level agreements for our data communications products to our medium and small business customers. We offer a broad range of internet based customer care tools. We operate, for example, an e-mail service centre where our customers can contact and receive responses from our customer service representatives by e-mail. We also provide a website with answers to frequently asked questions, service bulletin boards and tools to change passwords and other personal data on line. In addition business customers also have the option to receive their bills electronically through Telkom Online Bill.

We also provide our customers with a free SMS payment reminder where a cellular phone number is provided to avoid suspending of late paying customers.

In May 2003, Telkom, together with Standard Bank SA, introduced a new PrepaidFone electronic voucher recharge service that enables customers to purchase recharge vouchers at automated teller machines 24-hours a day, seven days a week. We have also extended this programme to First National Bank, ABSA and Vodacom.

Network

Network quality

The improvements in customer service that we have made have been facilitated by our investments in our national network operations centre and our new data centre. These investments have increased our ability to identify and anticipate future customer needs more rapidly and to provide the appropriate solutions and services. In order to take advantage of economies of scale in scheduling, we have consolidated our six voice installation and fault management centres into two centres to address faults, installation and service appointment scheduling and have consolidated our six data installation and fault management centres into two centres.

The following table sets forth information regarding our installation and repair times and service quality during the periods indicated. We have changed the measurements of the installation measures for ISDN, 2Mb data and subrates as of March 31, 2004 from a mean to an average calculation.

	Year ended March 31,		
	2002	2003	2004
Installation			
Average time to install residential voice (days)	8	9	8
Average time to install business voice (days)	5	2	4
Average time to install corporate voice (days)	3	0.4	2
Average time to install ISDN (days)(1)	31	15	16
Average time to install 2Mb data (days)(1)	35	26	20
Average time to install subrates data (days)(1)	23	20	14
Repair			
Average time to repair business voice (hours)	16	13	14
Average time to repair corporate voice (hours)	14	7	7
Average time to repair 2Mb leased lines (hours)	3	3	3
Average time to repair subrate leased lines (hours)	6	4	4
Service measures			
Number of residential faults per 1,000 lines	528	482	476
Number of business faults per 1,000 lines	265	242	234
Number of faults per 1,000 subrates	919	847	880
Number of faults per 1,000 2Mb	925	669	498
Percentage of coin payphones in service (percentage)	95	96	96
Percentage of card payphones in service (percentage)	98	98	98

(1) In the 2004 financial year, we revised the calculation of the installation measures for ISDN, 2Mb data and subrates data from a mean to an average calculation. Calculated on the original basis, the average time to install ISDN, 2Mb data and subrates data in the 2004 financial year would have been 12, 19 and 17 days, respectively.

Overall, we have significantly improved installation and repair times and service quality, however, our fault rates have been adversely affected by theft and vandalism primarily in the year ended March 31, 2002. We have introduced a number of efforts to curb theft and vandalism, including the introduction of alarms, security patrols and other technologies. In 2003 and 2004, we have continued with the implementation of a number of additional measures to combat theft, including the concrete encasing of copper cable routes, installation of security manhole lids, burying cables, constructing new overhead optic fibre and upgrading existing copper routes with technology less prone to theft. As a result of our focus to reduce theft and vandalism we have seen an approximate reduction of 28% in incidents in the 2004 financial year.

Infrastructure and technology

In 1997, we embarked on an extensive five-year capital investment programme in our fixed-line business. Our total fixed-line investment for the five years ended March 31, 2002 was R41.7 billion ($6.6 billion), of which R27.9 billion ($4.4 billion) was for network modernisation and line roll out in order to comply with our licence obligations and prepare for competition. Our five-year line roll-out programme in our fixed-line business was largely completed in 2002. We spent approximately R3.9 billion ($617 million) on fixed-line capital expenditure in the year ended March 31, 2004.

As of March 31, 2004, we had approximately 4.8 million telephone access lines in service. As a result of the line roll-out targets contained in our licence, customer migration to mobile services and disconnections due to customer non-payments, as well as lower connections primarily in the year ended March 31, 2003, we have excess capacity on our fixed-line network. We plan to use this capacity where possible to expand our prepaid services. Our strategy is to increase the number of access lines on our network by selectively expanding our network in economically viable areas where projected revenue exceeds the cost of construction.

The following table sets forth information related to the digitalisation and upgrade of our network:

	As of March 31,				
	2000	2001	2002	2003	2004
Digitalisation (percentage of lines)	99.0	99.6	99.8	99.8	99.9
ATM switches	116	129	195	197	189
Digital exchange units	3,697	3,894	4,083	4,292	4,321

National network operations centre

In 2000, we opened a state-of-the-art national network operations centre, capable of monitoring our core network and coordinating and dispatching core network repair personnel from one control point based at our Techno Park in Centurion, Pretoria. Our national network operations centre enables us to be more proactive in anticipating, localising and isolating problems, such as congestion and cable breaks, so that they can be corrected promptly. It has a 120 meter wide video wall providing an up to the minute, real time visual summary of the status of our entire network. Our national network operations centre includes an emergency restoration and control centre that manages all network failure restorations. Network service management specialists are able to obtain up to the minute information from this centre in order to proactively update global and corporate customers who have services affected by any major network failure, including voice and data network services.

Switching network

An important part of our fixed-line network modernisation programme has been switch digitalisation. As of March 31, 2004, 99.9% of our telephone access lines were connected to digital exchanges. Switch digitalisation has made our network more efficient and has enabled us to offer new value-added voice and data services, including caller line identification, electronic call answering and the provisioning of innovative billing systems. We have converted our switching network infrastructure from a four-tier architecture that historically was based on analog switching technology to a two-tier structure based on large capacity digital switches. The upper, or primary, tier is used for the switching of long-distance and international traffic and the lower, or secondary, tier is used for the switching of regional and local traffic.

The primary tier consists of eight switching centres and two international switching centres. Each of the switching centres includes two switches for redundancy purposes and in order to handle larger volumes during peak times. Each of the primary switching centres is interconnected by at least two self-healing diverse routes. Interconnection between our network and the networks of the three South African mobile operators takes place at primary level switches in the main centres. Two international telephone switching centres serve as the international gateways. Secondary switching centres are connected to the primary switching centres by at least two self-healing diverse routes. Each secondary switching centre includes one switch with internal redundancy mechanisms.

Transmission network

A priority of our investment programme has been to make our transmission network more resilient. We have enhanced our transmission network's resiliency through the deployment of synchronous digital hierarchy managed self-healing optical fibre rings.

As a result of our efforts, the overall number of fault reports per 1,000 subrates has decreased 4.2% in the past three years from 919 as of March 31, 2002 to 880 as of March 31, 2004. The number of fault reports per 1,000 business lines has decreased 11.7% in the past three years from 265 in the year ended March 31, 2002 to 234 in the year ended March 31, 2004.

Our national transmission network comprises a synchronous digital hierarchical and wave division-multiplexing network. Both the primary and the secondary tier consist of interlocking self-healing rings, which provide a dual path to each connection point.
The primary tier consists of eight rings, while the secondary tier consists of 470 rings. The synchronous digital hierarchy network, with its network management capability, provides for faster provision and modification of service, improved grade of service and lower maintenance costs. Telkom is investing in additional capacity to meet requirements for growth in data traffic and leased lines.

Access network

Access for our PSTN and data communications network is primarily via copper. Fibre in the loop has been deployed in the form of optical fibre distributed concentrators and digital line concentrators as well as fibre to mainly corporate customer sites. Telkom is deploying additional access network infrastructure to enable the provisioning of ISDN and ADSL services on demand. In addition, Telkom is focusing on the rehabilitation of its existing access network infrastructure to improve the reliability of its network.

Asynchronous transfer mode network

We have rolled out an asynchronous transfer mode network to deliver broadband services to global and corporate customers. We plan on migrating all of our data networks onto our asynchronous transfer mode network. As of March 31, 2004, we had 189 switches in our asynchronous transfer mode network. The present available bandwidth between the core switches on our asynchronous transfer mode network is 105 STM-1s or 15.7 Gbit/s, while the available bandwidth between the core switches and the services access switches is 320 STM-1s or 47.9 Gbit/s. Access to our asynchronous transfer mode network is primarily provided via fibre.

Public broadband internet protocol network

The public broadband internet protocol network comprises a three tier hierarchical network consisting of eight core sites, 16 edge sites and 63 access locations, including over 20,300 modems with an estimated dial up base of greater than 370,000 customers, including Telkom and other internet service providers. Our internet protocol network is powered by Cisco equipment.

We introduced ADSL as a new access technology in August 2002 for our internet protocol network. The ADSL roll-out has been designed to provide maximum coverage in terms of prospective ADSL customers. Our ADSL footprint consisted of 312 digital subscriber line access multiplexers, covering 61% of our exchanges serving 20,313 customers as of March 31, 2004, an increase from 2,669 customers as of March 31, 2003. This network is managed from our national network operations centre.

Voice over internet protocol network

The voice over internet protocol network terminates calls of international voice carriers into our fixed-line network. The network can terminate 52 media gateways, or 25,200 voice circuits. Our voice over internet protocol network is presently transit switching voice over internet protocol calls to ten African countries. The media gateways compress the traditional voice channels of 64 kbit/s to 8 kbit/s channels thus enabling us to reduce the cost of international calls.

International connectivity

We offer international connectivity from two international switching centres to terrestrial, satellite and submarine cable routes. The satellite earth station is situated at Hartebeeshoek, west of Pretoria. Further international connectivity has been provided with the deployment of very small aperture terminals and other satellite transmitters located at strategic locations throughout the country.

We have investments in three cable systems connecting Africa and international destinations. A submarine cable system, SAT-2, exists between Cape Town and Europe. We are the largest capacity owner on the SAT-2 submarine cable system with the right to use approximately 65% of the combined capacity. Consistent with our strategy of increasing international carrier traffic on our network, we have invested approximately $85 million in the SAT-3 (SAFE/WASC) submarine cable systems that were introduced into service during 2002. The cable systems provide fibre optic connectivity between South Africa and international destinations. These cable systems utilise the latest technology available in order to provide improved high speed voice, data, video and other on demand high bandwidth services and have increased fibre optic bandwidth between Europe and Africa significantly. We have the right to approximately 20% of the combined capacity on the SAT-3 (SAFE/WASC) submarine cable systems, making us the largest capacity owner in these cable systems out of the 36 telecommunications operators who have invested over $650 million in these cables. We believe we are uniquely positioned to exploit the synergies between our extensive fixed-line network in South Africa and our investments in these cables in order to become the communications hub of Africa. The length of the SAT-3/SAFE cable is approximately 13,100 km and the SAT-3/WASC is approximately 14,300 km.

Information technology/operations support systems

The quality of our operations support systems, which store, manage and analyse essential business information, is critical to the success of our business. Our operations support systems permit us to make timely and informed business decisions and respond to our customers' needs with tailored solutions. We have dedicated significant resources to the design and implementation of our new operations support systems based on a comprehensive and well defined information technology strategy.

In 2000, we opened a new data centre called Technopark in Centurion, Pretoria in order to improve internal information technology service levels and offer external internet and related services such as managed data centre hosting services. The centre is safeguarded by state of the art environmental and security systems capable of performing maintenance without impacting service or availability. The complex houses a 2,100 square meter data centre and over 9,000 square meters of usable office space and includes a 24-hour command/operations centre. The command centre contains a large video wall

We have a fully digital network, with 99.9% of our lines connected to digital exchanges, providing service to every major urban area in South Africa.

that enables operational and customer personnel to keep abreast of the current state of our information technology infrastructure 24 hours a day.

The data centre has been leveraged to include both our internal support systems and our external hosted offerings. Telkom has a business continuity and disaster recovery plan utilising both its Centurion and its sister data centre site in Bellville locations for redundancy purposes. Both operations can be monitored and operated from either location via service management tools and critical systems have data transferred between these sites for rapid disaster recovery should it be necessary. In addition to the growth and leveraging of operational functionality, the power support systems have been upgraded to add one more level of environmental redundancy. This redundancy is shared between the data centre and the new national business solutions centre building to reduce cost.

In June 2003, Telkom officially inaugurated a centre known as the national business solution centre. This centre was built alongside the national network operations centre and the data centre providing Telkom with a centralised information technology backbone. The national business solutions centre was commissioned and 11 of our external hosting clients have been relocated into this building for hosting and support. Both the data centre and the national business solution centre are operated from a command centre and now provides an additional 3,000 square meters of computer room space designed to the same specifications as our primary data centre requirements. In addition, this new facility gives Telkom the ability to provide high availability configurations that are split between both buildings for redundancy purposes. Network reliability has also been enhanced by creating a totally redundant, shared network environment between the data centre, the national business solution centre building and the national network operations centre.

Our retail billing systems have been upgraded. In 1999, the Amdocs guiding, rating and error management modules were implemented and in June 2001, the Amdocs Accounts Receivable module was implemented for voice services. We have also replaced our data billing system to facilitate the billing of more complex price plans. A new wholesale/interconnect billing process was implemented in 1999. In addition, we implemented a fraud management system during 2000, to detect network and subscription fraud. During the 2003 financial year we implemented a new data product system, Intercare, and integrated it with our billing system to improve costs and internal controls. In September 2002, we completed a project to standardise our desktop personal computer and workgroup infrastructure designed to increase efficiencies and decrease operational costs.

Telkom is currently in the process of implementing a number of management information and other operating systems, which are expected to continue in order to respond to the increased liberalisation of the South African telecommunications industry. These systems include an initiative aimed at providing an automated mechanism to manage and optimise the workforce, a provisioning/fulfilment system designed to manage the end-to-end delivery of products and services, a customer assurance system designed to track and resolve customer service problems and a customer care system designed to better manage customer relationships. The first phase of the workforce management system was completed in the 2004 financial year.

Competition

We expect that increased competition from the liberalisation of the South African communications market could result in decreased tariffs and loss in market share that could negatively impact our results of operations and growth. However, we expect competition also to stimulate overall market demand for communications services.

We had the exclusive right to provide public switched telecommunications services in the Republic of South Africa, including international telephone services, until May 7, 2002, but for a number of years we have competed with mobile operators and value-added network operators in connection with the provision of other services. ICASA issued an international carrier of carriers licence and multimedia licence to Sentech Limited in May 2002. Sentech Limited is wholly owned by the Government of the Republic of South Africa and is a provider of broadcasting signal distribution services on the African continent. In addition, on December 18, 2003, the Minister of Communications announced that she would grant a licence to a second national operator that will be 30% owned by two entities beneficially owned by the South African Government, 19% owned by a black economic empowerment consortium and 26% owned by two other consortiums, with the remaining 25% of the second national operator being held by the Government for sale to a strategic equity investor to be identified in the future. The Minister of Communications has indicated that she expects ICASA to issue the second public switched telecommunications services licence in 2004. A process has also commenced to issue additional licences to small business operators to provide telecommunications services in areas with a teledensity of less than 5%. ICASA has submitted its recommendations to the Minister of Communications for the granting of licences to successful bidders in seven of the ten areas in which licences could have been issued. The Minister of Communications granted licences to four successful bidders on June 3, 2004 and it is expected that these licences will be issued in 2004. The South African Telecommunications Act, 103 of 1996, requires the Minister of Communications to conduct an assessment of the feasibility of issuing additional licences from May 2005.

We also compete with Vodacom, our 50% owned joint venture, MTN, and Cell C, the three existing mobile operators, for telephone customers and for corporate mobile carrier services. In addition, we compete with other service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to be transferred directly to mobile networks. As a result of increasing competition, the main challenge we face is continuing to improve customer service and loyalty and maintaining our leadership in the South African telecommunications market during liberalisation.

We compete primarily on the basis of customer service, dependability and price in those areas where we currently face competition and where we expect to compete for public switched telecommunications services in the future. We intend to introduce new products and services and tariff structures with the aim of gaining additional revenue and increasing current revenue generated from existing products.

In addition, we compete with other telecommunication services providers in those areas that are fully liberalised, such as the provision of value-added data network services. The entry of multinational corporations to South Africa is expected to be a further incentive for global communications operators, which already service these corporations abroad, to establish or enhance their presence in South Africa.

Procurement

We utilise a transparent multi-disciplined approach to purchasing and supplier management in order to ensure that we receive the best products and services from reliable suppliers at the best overall price. We have established cross functional sourcing teams staffed with individuals from different areas of our organisation to evaluate and make recommendations on large bids, which, depending on size, require the further approval of our Executive Committee and notification to our Board of Directors. Bid requests are published in our weekly tender bulletin and on our website. We are required to adopt affirmative procurement policies that favour historically disadvantaged suppliers. We seek to utilise at least two suppliers for all critical equipment where possible in order to minimise supply risk. In the year ended March 31, 2004, our top 20 suppliers accounted for approximately 58% of all purchases and our main supplier was Total Facilities Management Company, which accounted for approximately 17% of all expenditure.

Mobile Communications

Overview

We participate in the South African mobile communications market through our 50% interest in Vodacom. Vodacom is the largest mobile communications network operator in the Republic of South Africa with an estimated market share of approximately 54% as of March 31, 2004 based on total estimated customers. In addition, Vodacom has investments in mobile communications network operators in Tanzania, Lesotho, the Democratic Republic of the Congo and Mozambique.

Vodacom's other shareholders are:

- Vodafone, the world's largest mobile telecommunications company, that beneficially owns 35% of Vodacom; and
- VenFin that beneficially owns 15% of Vodacom.

South Africa

Vodacom had approximately 9.7 million customers in South Africa as of March 31, 2004. As of March 31, 2004, Vodacom's 5,713 base stations were capable of reaching approximately 43 million people in South Africa, representing approximately 95% of the country's population based on the last official census conducted in 2001 and approximately 65% of the total land surface of the country. The estimated penetration rate for mobile communications in the Republic of South Africa has increased to 39.0% as of March 31, 2004 from an estimated 2.4% as of March 31, 1997.

Vodacom offers mobile communications services based on GSM technology. Vodacom was granted a mobile cellular telecommunications licence in South Africa in September 1993 and commenced service in June 1994. This mobile cellular telecommunications service licence was confirmed and reissued in August 2002 pursuant to the Telecommunications Act, 103 of 1996.

Products and services

Vodacom offers a wide range of mobile voice and data communications products and services, including value-added services such as caller identification, call forwarding, call waiting, voice-mail, entertainment, information and commerce services, short messaging services, multimedia messaging services, mobile internet access, fax services and twin call services, which enable customers to use two mobile phones under the same number. Vodacom's services also include the sale of handsets. Vodacom has a record of innovation as the first mobile communications network operator in the world to offer prepaid mobile communications services on an intelligent network platform and to offer its customers coverage across the whole of Africa where commercial GSM roaming is available. Vodacom was also the first mobile communications network operator in South Africa with nationwide coverage. In the 2004 financial year, Vodacom launched Call Sponsor and SMS-only roaming and promotional offerings such as MMS and SMS bundles. Vodacom's Call Sponsor offering enables contract customers to sponsor the calls of up to three prepaid customers. The Top Up package, which combines the benefits of a contract service with the financial control offered by a prepaid service, was also a successful launch during the 2004 financial year. Vodacom launched "My Life," in October 2002, offering 24-hour internet access, photo messaging and text messages of unlimited length by blending together GPRS and MMS technologies. Vodacom has access to Vodafone's extensive research related to its products, services and technology, including its international benchmarking studies. In the future, Vodacom will continue to focus on offering premier interactive voice response, premium short messaging services, general packet radio services, multimedia services and fixed-to-mobile products.

Contract subscription services

As of March 31, 2004, 14.6% of Vodacom's South African customers were contract customers. Contract subscription is typically for an initial 24-month contract. Vodacom offers contract customers a range of mobile service packages designed to appeal to specific customer segments. Vodacom offers two broad categories of contract subscription packages, leisure packages, such as Weekend Everyday for residential customers, and business packages, such as Business Call for business customers.

Prepaid services

As of March 31, 2004, 85.2% of Vodacom's South African customers were prepaid customers. Vodacom has two prepaid products, Vodago and 4U. In November 1996, Vodacom launched Vodago, a prepaid, no contract, no credit, mobile communications service based on the Siemens Intelligent Network platform. Since its introduction, Vodago has experienced rapid growth and has been a significant element in the growth of Vodacom's mobile customer base. In October 2001, Vodacom launched 4U, a new prepaid per second billing product targeted at the youth market who have higher usage of SMS and a need for per second billing. Since its inception, the number of 4U subscribers has increased significantly and as of March 31, 2004, approximately 67.9% of Vodacom's prepaid customers were 4U customers. Vodago and 4U provide instant access to the Vodacom network and enable low volume customers to control mobile telephone costs based on usage because there are no long-term contracts. Fax and certain data services are not available to Vodago customers. Vodacom offers seven prepaid vouchers, ranging from R29 worth of airtime value and a 90 day usage time window to R1,100 worth of airtime value and a 365 day usage time window. Remaining airtime value and time window are accumulated provided the customer recharges a voucher before the time window expires. The accumulated time window cannot exceed 24 months. Vodacom also offers a voucher that entitles customers to receive unlimited incoming calls for 365 days. This voucher does not entitle the customer to make outgoing calls, but can be combined with other vouchers that entitle the customer to make outgoing calls as well as accumulate airtime.

A wide variety of retail outlets, such as handset dealers, gas stations, tobacco shops and post offices, sell recharge vouchers for Vodacom's prepaid customers. Recharging can also take place electronically and through the use of banking networks. Because prepaid customers pay in advance for their mobile service, the risk of bad debts is eliminated and the risk of fraud is substantially reduced. In addition, prepaid services provide cost savings to Vodacom as bills do not need to be sent to prepaid customers and handsets for prepaid customers are not subsidised. There are less service offerings for the prepaid mobile communications market than there are for the contract base market. Following the launch of 4U, Vodacom is continuing to implement initiatives to expand its prepaid mobile communications service offerings and to gain a greater understanding of its prepaid customer base and its requirements.

Community services

In 1996, Vodacom, jointly with Siemens and Psitek, developed community telephone units that are installed throughout communities either on an individual basis or grouped in a container with the Vodacom brand. Community service phones are purchased by local entrepreneurs who resell community phone services. Community service phones are preloaded with airtime and can be recharged electronically by telephone shop operators when the airtime on the phone expires.

The demand for community service phones has been strong since its introduction. Vodacom had deployed approximately 24,767 community service phones as of March 31, 2004, exceeding its aggregate licence target of 22,000 community service phones. The development of community service phones has made it possible to provide mobile access to the more than 20 million South Africans who live in communities where there is less than one telephone line per hundred people and have improved the quality of life for many South Africans who previously had no access to telecommunications. Community service phones have also been a cost effective method of significantly increasing traffic revenue on Vodacom's network due to their low roll-out costs to Vodacom and low barriers to entry for customers. Community service phones generated ARPUs of more than 12 times Vodacom's average overall ARPUs in the year ended March 31, 2004. Vodacom intends to appropriately adopt its business model for community service phones in its other African operations.

Value-added mobile voice and data services

Vodacom offers an extensive portfolio of value-added mobile voice and data services, including caller identification, call forwarding, call waiting, voice-mail, entertainment, mobile information and commerce services, short messaging services, mobile multimedia services, data services, mobile internet access, fax services and twin call services, the latter of which enable customers to use two mobile phones under the same number. Vodacom has experienced substantial growth in the use of its value-added voice and data services, resulting in increased traffic revenue on its network. Short messaging services were the key contributor to Vodacom's R1.0 billion and R654 million of data revenue in South Africa in the years ended March 31, 2004 and 2003, respectively. Vodacom transmitted approximately 2.0 billion short messaging services over its network in the year ended March 31, 2004, up from approximately 1.5 billion and 911 million in the years ended March 31, 2003 and 2002, respectively.

In the 2004 financial year, Vodacom revised the presentation of its operating revenue to include data revenue, which was previously included in airtime revenue, as a new line item in its financial statements. Data revenue contributed 4.4% of Vodacom's total mobile network service revenues in the year ended March 31, 2004, up from 3.3% in the year ended March 31, 2003 and 2.8% in the year ended March 31, 2002. However, Vodacom believes that more sophisticated mobile messaging data and internet services are still in their infancy, with broad application hampered by low transmission speeds. Vodacom expects that the broad introduction of "always on" faster response and generally higher speed packet-switched data services, such as GPRS and universal mobile telecommunications system, or UMTS, will provide the platform for future value-added services. Vodacom launched MyLife, its MMS and GPRS network service, on October 17, 2002, Office Anywhere in August 2003, Look4me in February 2004 and Look4it in March 2004.

Handset sales

Service providers offer handsets for sale at subsidised prices to contract customers depending on the airtime and tariff plan and type of handset purchased. Vodacom purchases handsets at current market prices. Mobile users may use any handset on the Vodacom or any other network if the handset contains a SIM-card for Vodacom or the other network. No modifications, other than the replacement of the SIM-card, are required to utilise handsets on either the Vodacom or other mobile communications network operators' networks, unless the handset is network locked. During 2002, Vodacom began network locking lower-end handset sales for some of its prepaid products, such as those sold with subsidised starter-packs, as it had done for a small number of handsets sold prior to April 1999. Handset sales for the 2004 financial year exceeded 2.1 million units, a year-on-year growth of approximately 40.5% and 37% from the 2003 and 2002 financial years, respectively.

We anticipate that sales of camera phones with higher colour resolution and camera technology, with increased memory capacity, will increase in the future. We also believe that smartphones and personal digital assistant, or PDA, devices with GSM technology built-in, will become more readily available in the future years.

Interconnection services

Vodacom provides interconnection services to the other two South African mobile operators, our fixed-line business, Sentech and to the local operators in each of the African countries in which Vodacom operates. Vodacom will also provide these services to the second national operator and other South African communications licencees when they commence operations.

National roaming services

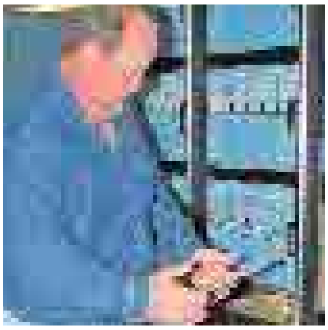
Vodacom concluded a 15-year roaming agreement with Cell C, effective November 1, 2001. This roaming agreement enables Cell C to provide national coverage to its customers, by allowing the routing of calls over Vodacom's mobile communications network. The new Cell C national roaming agreement has been amended to allow for continuous roaming in certain urban areas.

International roaming services

International roaming enables Vodacom's contract customers to make and receive calls with their mobile telephones in countries using the networks of operators with whom Vodacom has entered into international roaming agreements. As of March 31, 2004, Vodacom had international roaming agreements with 249 mobile communications network operators in 132 countries. In the fourth quarter of 1998, Vodacom became the first South African mobile communications network operator to sign a digital GSM roaming agreement with an American mobile communications operator and in November 2002, it provided complete roaming coverage of the African continent where commercial GSM roaming is available. Vodacom also receives revenue from its roaming partners for calls made in South Africa by their customers.

Customers

Vodacom has experienced substantial growth in its mobile customer base since its inception in 1994. As of March 31, 2004, there were an estimated 18.1 million mobile communications customers in South Africa, which represents an estimated penetration rate of 39.0% of the population. As of March 31, 2004, Vodacom estimated that its customers represented approximately 54% of South African mobile communications customers making Vodacom the leading mobile communications network provider in South Africa based on total estimated customers.



Vodacom is the leading South African mobile communications network operator with strong brand recognition, extensive network coverage and distribution channels.

The following table sets forth customer data for Vodacom's mobile communications services in the Republic of South Africa as of the dates indicated.

	As of March 31,			2003/2002	2004/2003
	2002	2003	2004	% change	% change
South Africa:					
Customers (thousands)[(1)]	6,557	7,874	9,725	20.1	23.5
Contract	1,090	1,181	1,420	8.3	20.2
Prepaid	5,439	6,664	8,282	22.5	24.3
Community services	28	29	23	3.6	(20.7)
Total inactive mobile customers (%)[(2)]	13.9	18.2	17.6	30.9	(3.3)
Contract	3.8	5.3	5.7	39.5	7.5
Prepaid	15.9	20.5	19.7	28.9	(3.9)
Gross connections (thousands)	3,038	3,495	4,998	15.0	43.0
Contract	199	197	377	(1.0)	91.4
Prepaid	2,836	3,295	4,617	16.2	40.1
Community services	3	3	4	0.0	33.3
Churn (percentage)[(3)]	27.2	30.4	36.6	11.8	20.4
Contract	14.5	11.9	10.1	(17.9)	(15.1)
Prepaid	30.1	34.0	41.3	13.0	21.5

(1) Customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the period indicated.
(2) Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months.
(3) Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period, including inactive customers. See below for a discussion of when customers are disconnected from its network.

Vodacom's contract customers are disconnected when they terminate their contract, or their service provider who carries the credit risk terminates their contract due to non-payment. Prepaid customers were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period, expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers to align itself with European and industry standards. From December 2003, prepaid customers are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days.

Vodacom believes the significant year-on-year growth in customer numbers since inception is due primarily to historical pent up demand for basic voice telephone services, particularly in underserviced and rural, outlying areas of South Africa. Vodacom also attributes its growth to the launch of its prepaid services, which have enabled those that lack access to credit and steady income to obtain telephone service. Vodacom believes that its aggressive marketing campaign, the creation of strong distribution channels for Vodacom's products and services and the introduction of new value-added voice and data services have further fuelled growth. The significant year-on-year growth for the year ended March 31, 2004 was due to higher numbers of gross connections achieved and lower churn in the contract base, partially offset by increased churn in the prepaid base.

Vodacom expects that the number of contract customers in South Africa will eventually level off and that the number of prepaid customers in South Africa will continue to grow in the medium term driven by the continued demand for basic voice telephone services. Vodacom believes that mobile communications services provide a cost effective means of telephone services for customers in underserviced and rural, outlying areas. Vodacom's efforts will therefore continue to focus on growing customer numbers while carefully managing its existing customer base, marginal revenue per customer and customer related acquisition and retention costs. Vodacom, MTN and Cell C each provide connection commissions to service providers and dealers, or agents. These are often utilised by agents to subsidise handsets as an incentive for customers to switch operators to obtain a new handset and to reduce the cost of access. As a result, Vodacom focuses on keeping its contract churn rate low and retaining high value customers through focused handset upgrade policies and other retention measures, while continuously monitoring customer acquisition and retention costs. Vodacom also actively manages churn through customer relationship management systems, developing its own distribution and logistics capabilities and other retention initiatives. Prepaid customer churn is negatively affected by the high rate of unemployment in South Africa and the low cost of access.

Traffic

The following table sets forth information related to the traffic volume of Vodacom's customers in South Africa for the periods indicated. Traffic comprises outgoing calls made in South Africa and abroad and incoming calls received by Vodacom's customers in South Africa, excluding national and incoming international calls.

	Year ended March 31,			2003/2002	2004/2003
	2002	2003	2004	% change	% change
Outgoing	4,967	6,343	7,772	27.7	22.5
Incoming (interconnection)	3,914	4,143	4,525	5.9	9.2
Traffic (millions of minutes)	8,881	10,486	12,297	18.1	17.3

Tariffs

Vodacom's tariffs are subject to regulatory scrutiny, and, in certain circumstances, approval of ICASA. The contract tariff packages are designed to appeal to leisure and business customers. Vodacom sets its contract subscription package tariffs utilising a balanced mix of access and usage. For those tariff packages where voice usage is high, the per minute rate is lowered and the monthly subscription tariff is raised. For those packages where the voice usage is low, the per minute tariff rate is increased and the monthly subscription tariff is lowered. For those users where the monthly subscription tariff is a barrier to entry, Vodacom offers prepaid packages with no monthly subscription tariff, but sets the per minute voice tariff rate higher. Tariff rates for SMS messaging are based on the fact that lower cost channels are used to carry SMS traffic.

Detailed tariffs are contained in the 20-F available on the Investor Relations website www.telkom.co.za/ir

Sales and marketing

Vodacom's sales and marketing strategy is split into two focus areas, marketing and brand building and sales and distribution. Vodacom's promotional strategy seeks to build a brand that is widely recognised by customers. Vodacom's advertising and promotion campaign is focused on television advertising and sponsorship of sporting and entertainment events.

The sale and distribution of Vodacom's products and services and the acquisition and retention of customers are performed by Vodacom's wholly owned subsidiary, Vodacom Service Provider Company (Proprietary) Limited, a company incorporated in the Republic of South Africa, and the other independent and exclusive service providers. In recent years, Vodacom has purchased a number of the previously independent service providers and consolidated its sales and distribution operations into Vodacom Service Provider Company. On March 1, 2004, Vodacom purchased 51% of Smartphone acquiring an additional 2.5 million prepaid customers and on April 16, 2004, Smartphone purchased an 85.75% equity stake in Smartcom acquiring an additional 40,000 contract customers. As a result of its acquisition of Smartphone, Vodacom directly controlled 65.3% of its total customer base, 70.6% of its contract customer base and 97.8% of its prepaid customer base in South Africa as of March 31, 2004.

In addition, Vodacom Service Provider Company seeks to enter into exclusive relationships with leading national retailers, wholesalers, dealers and franchisees in order to acquire and retain contract and prepaid customers. Vodacom utilised three exclusive service providers and three independent non-exclusive service providers as of March 31, 2004. As of March 31, 2004, 95.1% of Vodacom's total customer base, 76.5% of its contract customer base and 98.6% of its prepaid customer base in South Africa was managed by exclusive service providers or controlled directly by Vodacom as of March 31, 2004.

The more aggressive acquisition of customers and incentives in the 2004 financial year resulted in a larger customer base with associated improved revenues and profits but also resulted in margin pressure due to connection costs.

Since most customers in the developed market already have cell phones, Vodacom's objective in the short to medium term is to retain market share and attract new customers through attractive products. Loyalty and retention programmes played an integral role in achieving this objective. Vodacom also expanded its contract customer base by migrating appropriate high-end prepaid customers to contracts in the 2004 financial year.

As of March 31, 2004, Vodacom's distribution network consisted of:

- *Vodaworld* A unique one stop mobile telecommunications mall, showcasing the latest technology in mobile hardware;
- *Dealers and franchises* 1,586 company and independently owned mobile dealer and franchise outlets, including recently launched 4U stores;
- *National chains* 4,945 retail outlets;
- *Vodacom Direct* Vodacom's call centre based selling division;
- *Corporate solutions* An extensive direct sales division within Vodacom which concentrates on the sale of contracts, data products and value-added services to businesses; and
- *Wholesale* A significant channel representing underserviced areas and street vendors.

Customer care

Vodacom services customer needs through a variety of channels such as call centres, walk-in centres which are now established in Cape Town, Durban and Midrand, interactive voice response, via e-mail and through Vodacom's websites. Consequently, Vodacom has significantly improved its customer information systems and become increasingly proactive in developing relationships with its customers, particularly in the high revenue segment of the market. Vodacom is currently planning to establish more walk-in centres in other parts of the country.

Vodacom has developed a customer relationship management package that enables it to create a historical profile of customers so that customer information can be shared among the Group and used in Vodacom's customer retention initiatives. Although customer focus has always been important to Vodacom, during the last three years customer relationship management has become a key strategic focus area and an important philosophy in Vodacom. The current year saw ongoing integration of support systems and staff training as part of improving this continuously challenging area. Vodacom strives to improve relationships with customers by understanding their needs, their likes, dislikes, how they use our products and how they would like Vodacom to interact with them. Vodacom reassures its performance through independent customer satisfaction surveys designed by Vodafone and conducted on a quarterly basis. Vodacom launched its Vodacom Customer Reward Program to recognise and reward for influential and high spending contract individuals, which it believes, has contributed to a very low churn in this sector.

In addition, Vodacom has undertaken a number of other initiatives, including the development of distribution and logistics capabilities to better service customers, called Vodacare. The Vodacare infrastructure consists of 26 branches and franchises in all the major centres providing walk-in customer support to Vodacom customers, and an advanced repair centre hub for high-level repairs situated in Midrand. Vodacom believes that, with an average of 31,000 repairs per month, this dedicated customer service support infrastructure differentiates Vodacom's service from that of its competitors. During the 2004 financial year, Vodacom launched a new 48-hour swap programme to further increase service levels. The primary focus is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible and is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, and managed repairs through third parties.

Vodacom's contract customers receive itemised bills and are encouraged to pay by direct debit transfer. Vodacom has a flexible billing system for corporate customers allowing it to offer multiple tariff rates, more customised billing information and GPRS services. Vodacom monitors its exposure to credit loss and customer fraud through a credit scoring system that evaluates potential contract customers. The evaluation process has led to decreases in contract customer churn rates and increases in the overall credit quality of its mobile customers. For its prepaid customers, Vodacom offers the option to recharge over the telephone using credit cards in order to make the recharge process quicker and easier.

Infrastructure and technology

Vodacom operates the largest mobile communications network on the African continent using digital GSM technology within the GSM 900/1800 frequency band based on total reported customers.

In South Africa, the network's core GSM infrastructure is characterised by mobile switching centres (including visitor location register, or VLR, and gateways), base station controllers, base transceiver stations, including transceivers and GPRS functionality across the network.

	As of March 31,				
	2000	2001	2002	2003	2004
Macro base transceiver stations	2,977	3,401	3,670	3,906	4,158
Micro base transceiver stations	1,221	1,292	1,380	1,487	1,555
Total	4,198	4,693	5,050	5,393	5,713

Prepaid services are supported by the same GSM technology as contract services. In addition, prepaid services utilise a network of intelligent network nodes and associated front-ends and mediation systems for a variety of interactive voice response and electronic recharging options, including commercial bank ATM and point of sale terminal recharging.

Vodacom's transmission network comprises more than 13,066 E1 links and 30 STM-1 link systems leased from Telkom, which are managed by a comprehensive digital cross-connect infrastructure. In addition, Vodacom operates an extensive data network for its internal requirements, based on internet protocol, point-to-point frame relay and X.25 services, which is supported by the cross-connect network and more than 50 packet/frame/circuit nodes.

This network enables Vodacom to provide value-added voice and data services supported by voice-mail platforms, short messaging service centres, a wireless application protocol platform, a mobile internet gateway platform supporting advanced SIM toolkit applications and an intelligent network platform.

Vodacom has designed its mobile communications network using scaleable technology in order to be able to increase capacity in an economic manner as demand dictates. The network is capable of providing a high level of service quality despite an extremely varied distribution of traffic, difficult terrain conditions and a complex regulatory environment. In the year ended March 31, 2004, Vodacom had a busy hour dropped call rate of 0.78% and call success rate of 98.6% in South Africa.

Vodacom intends to install additional base station controllers, micro base stations and micro base transceiver stations in order to increase capacity and improve network quality in areas where required. As of March 31, 2004, Vodacom had already installed dual band (GSM900/GSM1800) base transceiver stations in 574 locations, including 258 locations in Johannesburg, 180 locations in Pretoria, 68 locations in KwaZulu-Natal, 43 locations in the Western Cape, 19 locations in the Eastern Cape and 6 locations in the Central region. In addition, all base transceiver stations in metropolitan areas have been upgraded with dual band antennas and feeder cables to accommodate GSM1800 equipment.

In the design of its network, Vodacom has paid careful attention to the needs of customers and to the environment by making an extensive effort to implement sites in the most discrete manner possible. Furthermore, attention has been paid to management of electromagnetic emissions to ensure compliance with recognised international environmental standards such as those developed by the International Commission on Non-ionising Radiation Protection.

Vodacom has implemented a new billing system to allow for the billing of GPRS services, such as multi-media messaging services and other content-based services. Unlike traditional GSM services where calls are billed on a per second or per minute basis, customers utilising GPRS services are billed according to the number of bytes of data sent or received.

Vodacom believes its 3G licence will stimulate further growth in products and services to satisfy customer demand. As a result, during the 2005 financial year Vodacom intends to increase its capital spend in such areas.

Competition

The current South African mobile telecommunications market consists of three mobile communications network operators, Vodacom, MTN, a wholly owned subsidiary of MTN Group Limited, a public company listed on the JSE, and Cell C. Cell C is 60% beneficially owned by a Saudi Arabian based group owned by the Hariri family and 40% beneficially owned by a consortium of mainly black empowerment groups. Cell C commenced operations in November 2001. As of March 31, 2004, Vodacom was the market leader with an approximately 54% market share based on the total estimated customers in the South African mobile communications market, while MTN had an approximately 35% market share and Cell C had an approximately 11% market share. Vodacom competes primarily on the basis of product quality, availability and network coverage. Vodacom believes that increased competition could have an adverse impact on its tariffs and churn rate.

Operations in other African countries

Vodacom intends to increase revenue from its other African operations, initially by growing its existing operations primarily in sub-Saharan Africa, and, in the future, by selectively acquiring additional mobile licences or operators primarily in other sub-Saharan African markets. Investments outside of South Africa are evaluated and monitored against key investment criteria, focusing primarily on countries with stable economic and political conditions or good prospects for growth, market leadership and profitability. Other key factors include Vodacom's ability to gain majority ownership, develop strong local partnership relationships and obtain non-recourse financing. Other African operators are branded under the "Vodacom" name.

Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. After almost two years of negotiations, Vodacom launched commercial operations in the Republic of Mozambique on December 15, 2003. The number of customers served by Vodacom's operations outside South Africa has grown significantly to 1,492,027 as of March 31, 2004 from 772,821 as of March 31, 2003 and 306,156 as of March 31, 2002. Revenue from Vodacom's operations outside of South Africa has grown to R1,497 million in the year ended March 31, 2004 from R1,235 million in the year ended March 31, 2003 and R741 million in the year ended March 31, 2002. Our share of Vodacom's operating loss from other African operations was R33 million in the year ended March 31, 2004, compared to R2 million in the year ended March 31, 2003 and a R41 million profit in the year ended March 31, 2002.

Vodacom entered into a five-year management agreement with VEE Networks Limited effective April 1, 2004, pursuant to which Vodacom would have managed VEE Networks' cellular network operations in Nigeria with the intention of acquiring an equity stake in the business. On May 31, 2004, however, Vodacom announced that it had elected to terminate the management contract and abandon its plan to make an equity investment in the business of VEE Networks in Nigeria. Vodacom will continue to provide technical support to VEE Networks for a period of up to six months. Vodacom is currently a defendant in certain legal proceedings related to its activities in Nigeria. Vodacom is not currently able to estimate the outcome or extent of any claims or damages for which it may be liable if it is not successful in defending these claims.

The following table sets forth customer data for Vodacom's mobile communications networks in its other African operations as of the dates specified. The table reflects 100% of all of Vodacom's operations.

	As of March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
Other African countries					
Customers (thousands)[1]	306	773	1,492	152.6	93.0
Lesotho	57	78	80	36.8	2.6
Tanzania	228	447	684	96.1	53.0
Democratic Republic of the Congo	21	248	670	1,081.0	170.2
Mozambique	—	—	58	—	—
Gross connections (thousands)					
Lesotho	45	76	51	68.9	(32.9)
Tanzania	154	262	404	70.1	54.2
Democratic Republic of the Congo	21	260	513	1,138.1	97.3
Mozambique	—	—	58	—	—
Penetration (%)[2]					
Lesotho	2.6	4.3	5.1	65.4	18.6
Tanzania	1.1	2.2	3.3	100.0	50.0
Democratic Republic of the Congo	0.3	1.0	2.3	233.3	130.0
Mozambique	—	—	15	—	—
ARPU[3]					
Lesotho (ZAR)	144	104	125	(27.8)	20.2
Tanzania (USD)	27	22	18	(18.5)	(18.2)
Democratic Republic of the Congo (USD)	n/a	20	21	—	5.0
Mozambique (USD)	—	—	15	—	—
Number of employees	494	502	761	1.6	51.6
Lesotho	71	74	68	4.2	(8.1)
Tanzania	188	224	316	19.1	41.1
Democratic Republic of the Congo	235	204	334	(13.2)	63.7
Mozambique	—	—	43	—	—

(1) Customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the period indicated.

(2) Penetration calculations are estimates in the 2004 and 2003 financial years and are based on ITU Telecommunications indicators as of December 31, 2001 in the 2002 financial year.

(3) ARPU is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks.

Procurement

Vodacom solicits bids for all goods and services in excess of R500,000. Bids are through a closed tender system by invitation only. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier based on the best overall score, taking into account technical specification, delivery time, price, financial viability and the participation of black economic empowerment partners.

Vodacom seeks to utilise at least two suppliers for all critical equipment where possible to minimise supply risk. Vodacom's main technology suppliers are Siemens, Alcatel and Motorola.

Financial review

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

We proportionately consolidate Vodacom's results into the Telkom Group's consolidated financial statements. This means that we include 50% of Vodacom's results in each of the line items in the Telkom Group's consolidated financial statements and in the period-to-period discussion below. We fully consolidate our Telkom Directory Services and Swiftnet subsidiaries in the Telkom Group's consolidated financial statements.

Reclassifications have occurred in each of the years ending March 31, 2003 and 2004. In the 2003 financial year, we reclassified some of the items previously included in selling, general and administrative operating expenses and investment income into other income, a new line item in the Telkom Group's consolidated income statements. The reclassifications in the 2003 financial year reduced operating profit and EBITDA by R22 million in the 2002 financial year. In the 2004 financial year, we reclassified discounts offered on mobile-to-fixed interconnect and discounts on leased line facilities to mobile operators from payments to other operators in operating expenses to an offset to operating revenue. We also reclassified costs in respect of asset write-offs from selling, general and administrative expenses to depreciation, amortisation, impairments and asset write-offs; costs in respect of losses on the disposal of property, plant and equipment and investments from selling, general and administrative expenses to other income; and insurance costs paid to Debis for our vehicle fleet from operating leases to services rendered in the 2004 financial year. In addition, we revised our presentation to remove other income from operating expense. The reclassifications in the 2004 financial year had no effect on operating profit in prior years, but reduced operating revenue by R110 million and R93 million and increased EBITDA by R445 million and R205 million in the 2002 and 2003 financial years, respectively. Other income has been excluded from fixed-line and mobile operating revenue and operating expenses in the segmental discussion below.

With the launch of ADSL, TelkomInternet powered by ADSL and TelkomInternet powered by satellite, Telkom has advanced on the technology evolution path, elevating its position as data service provider of choice.

Summary group results

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Operating revenue	34,087	37,507	40,795	10.0	8.8
Other income	143	233	98	62.9	(57.9)
Operating expenses	30,039	31,226	31,805	4.0	1.9
Operating profit	4,191	6,514	9,088	55.4	39.5
Investment income	512	424	479	(17.2)	13.0
Finance charges	2,550	4,154	3,264	62.9	(21.4)
Profit before tax	2,153	2,784	6,303	29.3	126.4
Taxation	873	1,049	1,711	20.2	63.1
Profit after tax	1,280	1,735	4,592	35.5	164.7
Minority interests	59	105	69	78.0	(34.3)
Net profit	1,221	1,630	4,523	33.5	177.5
EBITDA	10,044	13,012	16,337	29.5	25.6
Capital expenditure excluding intangibles	9,004	5,712	5,307	(36.6)	(7.1)
Operating free cash flow	(1,079)	4,042	9,009	474.6	122.9
Net debt	21,966	20,171	13,362	(8.2)	(33.8)
Headline EPS (ZAR cents)	299.3	314.0	863.6	4.9	175.0
EPS (ZAR cents)	219.2	292.6	812.0	33.5	177.5
Operating profit margin (%)	12.3	17.4	22.3		
EBITDA margin (%)	29.5	34.7	40.0		
Net debt to equity (%)	130.5	109.9	60.6		
After-tax operating return on assets (%)	6.6	10.5	17.8		
Capex to revenue (%)	26.4	15.2	13.0		

Operating revenue

Operating revenue increased 8.8% and 10.0% in the years ended March 31, 2004 and 2003, respectively, due to increased operating revenue in our fixed-line and mobile segments. The increase in fixed-line operating revenue in the 2004 financial year was primarily due to increased subscription and connection tariffs, growth in data services, increased long-distance, local, international and fixed-to-mobile traffic tariffs and increased interconnection traffic, partially offset by lower long-distance and fixed-to-mobile traffic. The increase in fixed-line operating revenue in the 2003 financial year was primarily due to increased subscription and connection tariffs, local traffic tariffs and fixed-to-mobile traffic tariffs and growth in data services. Mobile operating revenue increased primarily due to strong customer growth. Fixed-line operating revenue accounted for 75.8%, 78.8% and 81.7% of our consolidated operating revenue before inter-company eliminations in the years ended March 31, 2004, 2003 and 2002, respectively. The aggregate increase in operating revenue in the 2004 financial year exceeded average inflation in South Africa in the 2004 financial year and was in line with average inflation in South Africa in the 2003 financial year.

Other income

Other income includes profit on the sale of assets and investments. Fixed-line other income decreased 63.1% to R73 million in the year ended March 31, 2004 and increased 55.9% to R198 million in the year ended March 31, 2003 from R127 million in the year ended March 31, 2002. The decrease in fixed-line other income in the 2004 year was due to reduced non-recurring profit from the sale of our investment in Inmarsat and other Telkom assets as compared to the profit on sale of Intelsat in the 2003 financial year. The increase in fixed-line other income in the 2003 financial year was driven by the non-recurring profit on the sale of our investment in Intelsat on December 30, 2002 and other Telkom assets.

Operating expenses

Operating expenses increased 1.9% in the year ended March 31, 2004 primarily due to increased operating expenses in our mobile segment. Fixed-line operating expenses decreased 3.5% in the 2004 financial year primarily due to reduced payments to other network operators, selling, general and administrative expenses, services rendered and operating leases, partially offset by increased depreciation, amortisation, impairments and asset write-offs. Payments to other network operators decreased primarily due to lower volumes of calls from our fixed-line network to the mobile networks and favourable exchange rates resulting in lower international settlement rates. Selling, general and administrative expenses were significantly impacted by the reversal of the R325 million provision for the Telcordia dispute. Selling, general and administration expenses decreased primarily due to lower materials and maintenance expenses impacted mainly by improved efficiencies and cost-saving initiatives, reduced cable theft and a favourable exchange rate. Services rendered was lower due to non-recurring expenses related to our initial public offering incurred in the 2003 financial year and the reduction in fees paid to Thintana Communications as a result of fewer key personnel, reduced management fees and a more favourable exchange rate. Operating leases decreased primarily due to a decrease in the number of vehicles in our fleet, the continued relocation of employees from leased properties to owned properties and improvements in overall space utilisation. Employee expenses increased marginally due to our retrenchment programme. The increase in mobile operating expenses in the 2004 financial year was primarily due to increased selling, general and administrative expenses as a result of customer growth and increased competition requiring higher incentive costs, increased payments to other network operators due to higher outgoing traffic and the increased incidence of outgoing traffic terminating on other mobile networks, higher staff costs associated with increased headcount and increased depreciation, amortisation, impairments and asset write-offs.

Operating expenses increased 4.0% in the year ended March 31, 2003 due to increased operating expenses in our mobile segment. Fixed-line operating expenses were relatively flat in the 2003 financial year, decreasing 0.7% primarily due to reduced selling, general and administrative expenses and, to a lesser extent, reduced payments to other network operators, partially offset by increased depreciation, amortisation, impairments and asset write-offs and services needed. Selling, general and administrative expenses were impacted in the 2002 financial year by the inclusion of a R325 million provision, excluding interest and legal fees, related to the Telcordia dispute. Excluding these items, selling, general and administrative expenses decreased primarily due to reduced bad debts as a result of lower bad debt write-offs and a R276 million reduction in the provision for doubtful accounts on our balance sheet, as well as lower marketing and materials expenses due to cost cutting initiatives and reduced losses in respect of cable theft. The decrease in fixed-line operating expenses was partially offset by increased depreciation and amortisation and services rendered while operating leases and employee expenses remained relatively constant. A decrease in salaries and wages and employee retrenchment expenses in the 2003 financial year was partially offset by an increase in benefits in that year. The increase in mobile operating expenses in the 2003 financial year was primarily due to increased selling, general and administrative expenses, as a result of customer growth and increased competition requiring higher incentive costs, increased payments to other network operators and increased depreciation, amortisation, impairments and asset write-offs associated with increased capital expenditures.

Operating profit

Operating profit increased significantly in the year ended March 31, 2004 primarily due to a 48.8% increase in operating profit in our fixed-line segment and a 20.8% increase in operating profit in our mobile segment. The increase in fixed-line operating profit in the year ended March 31, 2004 was due to higher revenue and a decline in operating expenses. Mobile operating profit increased in the year ended March 31, 2004 primarily due to increased mobile operating revenue as a result of customer growth.

Operating profit increased significantly in the year ended March 31, 2003 primarily due to a 79.3% increase in operating profit in our fixed-line segment and a 19.3% increase in operating profit in our mobile segment. Fixed-line operating profit increased significantly in the year ended March 31, 2003 due to higher revenue driven by increased subscription tariffs, local traffic tariffs and fixed-to-mobile traffic tariffs and data revenue growth, while fixed-line operating expenses declined slightly. Mobile operating profit increased in the year ended March 31, 2003 primarily due to substantial increases in the number of Vodacom's customers and revenue.

Investment income

Investment income consists of interest received on trade receivables, short-term investments and bank accounts and income received from our investments. Investment income increased 13.0% to R479 million in the year ended March 31, 2004 primarily due to increased interest received associated with higher average balances in investments and bank accounts.

Investment income decreased 17.2% to R424 million in the year ended March 31, 2003 from R512 million in the year ended March 31, 2002 primarily due to a more rapid collection of trade debtors, lower interest received due to lower average balances in investments and bank accounts and reduced interest on the receivable owing from the South African Revenue Services as they repaid R844 million on September 3, 2002 of their balance outstanding of R1,081 million on March 31, 2002.

Finance charges

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and foreign exchange gains and losses.

The following table sets forth information related to our finance charges for the periods indicated.

	Year ended March 31,				
	2002	2003	2004	2003/2002	2004/2003
In millions, except percentages	ZAR	ZAR	ZAR	% change	% change
Interest expense	3,185	2,869	2,488	(9.9)	(13.3)
Local loans	2,690	2,642	2,253	(1.8)	(14.7)
Foreign loans	599	375	303	(37.4)	(19.2)
Finance charges capitalised	(104)	(148)	(68)	42.3	(54.1)
Net fair value and exchange losses/(gains) on financial instruments	(635)	1,285	776	302.4	(39.6)
Fair value adjustments on derivative instruments	(3,036)	2,046	1,144	167.4	(44.1)
Foreign exchange (gains)/losses	2,401	(761)	(368)	(131.7)	51.6
Finance charges	2,550	4,154	3,264	62.9	(21.4)

Finance charges decreased in the year ended March 31, 2004 due to reduced net fair value and exchange losses on financial instruments, lower interest-bearing debt levels and lower interest expense, which included the Telcordia interest reversal. The net fair value and exchange losses on financial instruments decreased by 39.6% from R1,285 million in the 2003 financial year to R776 million in the 2004 financial year, due to the reduced fair value losses on derivative instruments for foreign loans and purchases of foreign goods and services, partially offset by lower foreign exchange gains on foreign liabilities as a result of the appreciation of the Rand.

Finance charges increased significantly in the year ended March 31, 2003 due to a significant increase in net fair value and exchange losses on financial instruments, from a net gain of R635 million in the 2002 financial year to a net loss of R1,285 million in the 2003 financial year, which was partially offset by a 9.9% decrease in interest expense. The significant increase in net fair value and exchange losses on financial instruments was primarily due to the fair value loss on derivative instruments for foreign loans and purchases of foreign goods and services as required by IAS 39, partially offset by foreign exchange gains on foreign liabilities as a result of the appreciation of the Rand. The decrease in interest expense in the 2003 financial year was primarily due to lower balances on foreign and local loans and increased finance charges capitalised due to an increased number of qualifying assets completed during the period.

Taxation

Our consolidated tax expense increased 63.1% to R1,711 million in the year ended March 31, 2004 and

Boosting our bouquet of telecommunications equipment products and making our presence felt in the highly competitive CPE market, we launched Opticon, our voice over internet protocol PABX.

20.2% to R1,049 million in the year ended March 31, 2003 from R873 million in the year ended March 31, 2002. Our consolidated effective tax rate was 27.2% in the 2004 financial year, 37.7% in the 2003 financial year and 40.5% in the 2002 financial year. Telkom's effective tax rate was 15.6%, 34.7% and 46.4%, respectively, and Vodacom's effective tax rate was 36.1%, 34.0% and 33.1%, respectively, during the 2004, 2003 and 2002 financial years. The reason for the significant decrease in the effective tax rate of Telkom and the Telkom Group in the 2004 financial year is primarily due to the reversal of the provision for Telcordia in the 2004 financial year, which increased the net income of Telkom and the Telkom Group, but were not taxable to Telkom or the Telkom Group. In addition, the Telkom effective tax rate was further impacted by the receipt of approximately R1.2 billion in dividends from subsidiaries and joint ventures, which increased Telkom's net income, but were not taxable to Telkom. The increases in consolidated tax expense in the year ended March 31, 2004 and March 31, 2003 were primarily due to the increase in our pre-tax income.

Minority interests

Minority interests in the income of subsidiaries decreased 34.3% to R69 million in the year ended March 31, 2004 primarily due to a 24.6% reduction in profits at Vodacom Tanzania. Minority interests in the income of subsidiaries increased 78.0% to R105 million in the year ended March 31, 2003 due to increased profits in Vodacom Tanzania and in our Telkom Directory Services subsidiary despite the decrease in minority ownership in our Telkom Directory Services subsidiary during the 2002 financial year. We acquired a further 10% interest in Telkom Directory Services in October 2001 and the remaining 40% interest in Swiftnet in May 2001.

Net profit

Net profit increased significantly to R4,523 million in the year ended March 31, 2004 and 33.5% to R1,630 million in the year ended March 31, 2003 from R1,221 million in the year ended March 31, 2002 primarily due to significantly increased operating profit in our fixed-line segment as well as increased operating profit in our mobile segment. The increase in net profit in the 2004 financial year was bolstered by lower interest expense and lower net fair value and exchange losses on financial instruments in that year as well as increased investment income, partially offset by increased taxes. The increase in net profit in the 2003 financial year was partially offset by a significant increase in finance charges due to the fair value loss on derivative instruments for foreign loans and purchases of foreign goods and services as required by IAS 39, increased taxation and decreased investment income, partially offset by foreign exchange gains on foreign liabilities as a result of the appreciation of the Rand and decreased interest expense.

Fixed-line segment

Fixed-line segment summary

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Revenue	27,866	29,542	30,906	6.0	4.6
Operating expenses	25,568	25,392	24,508	(0.7)	(3.5)
Operating profit	2,425	4,348	6,471	79.3	48.8
EBITDA	7,233	9,658	12,454	33.5	29.0
Capital expenditure	6,962	4,013	3,862	(42.4)	(3.8)
Operating profit margin (%)	8.7	14.7	20.9		
EBITDA margin (%)	26.0	32.7	40.3		
Capex to revenue (%)	25.0	13.6	12.5		

The following is a discussion of the results of operations from our fixed-line segment before eliminations of inter-company transactions with Vodacom. Our fixed-line segment is our largest segment based on revenue and profit contribution.

Fixed-line operating revenue

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Subscriptions and connections	4,410	4,595	5,024	4.2	9.3
Traffic	17,168	18,001	18,313	4.9	1.7
Local	4,876	5,616	5,910	15.2	5.2
Long distance	3,794	3,562	3,770	(6.1)	5.8
Fixed-to-mobile	7,323	7,539	7,321	2.9	(2.9)
International outgoing	1,175	1,284	1,312	9.3	2.2
Interconnection[1]	1,765	1,762	1,643	(0.2)	(6.8)
Mobile operators	524	597	697	13.9	16.8
International operators	1,241	1,165	946	(6.1)	(18.8)
Data[2]	3,836	4,425	5,023	15.4	13.5
Leased lines and other data revenue[3]	3,079	3,496	4,114	13.5	17.7
Leased line facilities revenues from mobile operators[2]	757	929	909	22.7	(2.2)
Directories and other services	687	759	903	10.5	19.0
Fixed-line operating revenue[1] [2]	27,866	29,542	30,906	6.0	4.6

(1) Includes an offset for discounts offered on mobile-to-fixed interconnect which had previously been included in operating expenses under payments to other operators in the 2003 and 2002 financial years. The discounts were R9 million, R11 million and R33 million, or 1.3%, 1.8% and 5.9% of gross interconnection revenues from domestic mobile operators for the years ended March 31, 2004, 2003 and 2002, respectively. Interconnection revenue for the 2003 and 2002 financial years has been revised to reflect the new presentation.

(2) Includes an offset for discounts on leased line facilities to mobile operators which had previously been included in operating expenses under payments to other operators in the 2003 and 2002 financial years. The discounts were R77 million, R82 million and R77 million, or 7.8%, 8.1% and 9.2% of leased line facilities rental from mobile operators for the years ended March 31, 2004, 2003 and 2002, respectively. Data revenue for the 2003 and 2002 financial years has been revised to reflect the new presentation.

(3) Leased lines and other data revenue includes all data services revenue other than leased line facilities revenue from mobile operators.

Operating revenue from our fixed-line segment increased 4.6% and 6.0% in the years ended March 31, 2004 and 2003, respectively.

Subscriptions and connections

In thousands, except percentages	Year ended March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
Postpaid					
PSTN[(2)]	3,554	3,285	3,134	(7.6)	(4.6)
ISDN channels	467	563	656	20.6	16.5
Prepaid	708	817	856	15.4	4.8
Private payphones	21	17	15	(19.0)	(11.8)
Subscription access lines[(1)]	4,750	4,682	4,661	(1.4)	(0.4)

(1) Total subscription access lines are comprised of PSTN lines, including ISDN lines, private payphones and internal lines in service, but exclude public payphones. Telkom had 140,950, 134,972 and 162,460 internal lines as of March 31, 2004, 2003 and 2002, respectively. Each PSTN line includes one access channel, each basic ISDN line includes two access channels and each primary ISDN line includes 30 access channels.

(2) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fibre.

Revenue from subscriptions and connections increased 9.3% and 4.2% in the years ended March 31, 2004 and 2003, respectively, mainly due to an increase in average monthly subscriptions and connections tariffs and increased sales and rental of customer premises equipment primarily in the 2004 financial year, partially offset by the lower number of fixed access lines in service primarily as a result of customer migration to mobile services and lower connections, as well as disconnections due to customer non-payments primarily in the 2002 and 2003 financial years. The decreases in postpaid PSTN lines in the years ended March 31, 2004 and 2003 were partially offset by increases in the number of postpaid ISDN channels, which have higher subscription rates than PSTN lines, and in the number of prepaid PSTN lines. The increase in the number of postpaid ISDN channels was driven by increased demand for higher bandwidth and functionality. The increase in prepaid lines was mainly due to our increased marketing efforts for our prepaid telephone services, particularly to first-time residential customers with poor or no credit histories, and postpaid customers encouraged to migrate to prepaid services due to late payments and credit difficulties.

Traffic

Traffic revenue increased 1.7% and 4.9% in the years ended March 31, 2004 and 2003, respectively.

Millions of minutes, except percentages	Year ended March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
Local traffic	20,538	20,396	20,547	(0.7)	0.7
Long-distance traffic	4,747	4,728	4,616	(0.4)	(2.4)
Fixed-to-mobile traffic	4,364	4,135	3,980	(5.2)	(3.7)
International outgoing traffic	374	439	427	17.4	(2.7)
International voice over internet protocol	–	–	25	n/a	n/a
Outgoing traffic[(1)]	30,023[(2)]	29,698	29,595	(1.1)	(0.3)
Average monthly traffic minutes per average monthly access line (minutes)[(3)]	520	521	526	0.2	1.0

(1) Traffic is calculated by dividing traffic revenue by the weighted average tariff during the relevant period. Traffic includes internet traffic.

(2) In the 2003 financial year, we revised the calculation of the weighted average tariffs for certain prepaid calls and our ShareCall product. We have recalculated the traffic for the 2002 financial year accordingly. Calculated on the original basis, total traffic, excluding interconnection, was 29,912 millions of minutes in the 2002 financial year.

(3) Average monthly traffic minutes per average monthly access line are calculated by dividing the total traffic by the cumulative number of monthly access lines in the period.

Local traffic revenue increased 5.2% and 15.2% in the years ended March 31, 2004 and 2003, respectively, primarily due to increased local traffic tariffs partially offset by increased growth in our discount and calling plans designed to combat mobile substitution primarily in the 2004 financial year. Local traffic was relatively flat during the 2004 and 2003 financial years, increasing 0.7% in the 2004 financial year and decreasing 0.7% in the 2003 financial year. Local traffic was adversely affected by a decrease in the number of fixed access lines in service during the 2004 and 2003 financial years and the increasing substitution of local calls placed using mobile services rather than our fixed-line service.

Long-distance traffic revenue increased 5.8% in the year ended March 31, 2004 mainly due to increased long-distance traffic tariffs, partially offset by decreased long-distance traffic. Long-distance traffic revenue decreased 6.1% in the year ended March 31, 2003 primarily due to decreased average long-distance traffic tariffs and decreased long-distance traffic. We increased our fixed-line long-distance traffic tariffs on January 1, 2003 as we have completed our tariff rebalancing. Long-distance traffic decreased 2.4% and 0.4% in the 2004 and 2003 financial years, respectively. Long-distance traffic was adversely impacted by a decrease in the number of fixed access lines in service during 2004 and 2003 financial years and the increasing substitution of national long-distance calls using mobile services rather than our fixed-line long-distance service. Long-distance traffic was also adversely affected by increased sales of our SmartAccess products in the 2003 and 2004 financial years, as well as the fact that fixed-line long-distance traffic tariffs were historically higher than the price of mobile calls, which are not distance dependent. We have reduced our long-distance traffic tariffs to below mobile tariffs over the past five years as a result of our tariff rebalancing programme and continue to educate the market on our tariffs.

Fixed-to-mobile traffic revenue decreased 2.9% in the year ended March 31, 2004 primarily due to lower fixed-to-mobile traffic, partially offset by increased traffic tariffs. We increased discounts on fixed-to-mobile calls in the 2004 financial year to combat mobile substitution. Fixed-to-mobile traffic revenue increased 2.9% in the year ended March 31, 2003 primarily due to fixed-to-mobile traffic tariff increases in November 2001 and January 2003 as a result of the amendment of our interconnection agreement with MTN and Vodacom and our new interconnection agreement with Cell C effective in November 2001, partially offset by a decrease in fixed-to-mobile traffic. Fixed-to-mobile traffic decreased 3.7% and 5.2% in the years ended March 31, 2004 and 2003, respectively, primarily as a result of an increase in the number of mobile subscribers, resulting in increased mobile-to-mobile traffic and less fixed-to-mobile traffic and an effective 5.5% increase in tariffs in January 2003 and a 1.1% increase in tariffs in January 2004. Additionally, fixed-to-mobile traffic was adversely impacted by a decrease in the number of fixed access lines in service during the 2004 and 2003 financial years.

International outgoing traffic revenue increased 2.2% in the year ended March 31, 2004 primarily due to international outgoing traffic tariff increases, a change in the mix of calling destinations, partially offset by lower international outgoing traffic. International outgoing traffic revenue increased 9.3% in the year ended March 31, 2003 primarily due to increased international outgoing traffic and a change in the mix of calling destinations, partially offset by decreases in average international outgoing traffic tariffs in the 2003 financial year. We increased our average fixed-line international outgoing traffic tariffs on January 1, 2003 as we have completed our tariff rebalancing. International outgoing traffic decreased 2.7% in the year ended March 31, 2004 mainly due to substitution of fixed-line calls with mobile and increased competition from Sentech. International outgoing traffic increased 17.4% in the 2003 financial year primarily due to lower effective tariffs and increased marketing efforts.

Interconnection

Millions of minutes, except percentages	Year ended March 31, 2002	2003	2004	2003/2002 % change	2004/2003 % change
Domestic mobile interconnection traffic[(1)]	2,008	2,099	2,159	4.5	2.9
International interconnection traffic[(2)]	1,053	1,071	1,188	1.7	10.9
Interconnection traffic	3,061	3,170	3,347	3.6	5.6

(1) Domestic mobile-to-fixed interconnection traffic is calculated by dividing total domestic mobile-to-fixed interconnection traffic revenue by the weighted average domestic mobile-to-fixed interconnection traffic tariff during the relevant period.

(2) International interconnection traffic is based on the actual traffic registered through the respective exchanges and reflected on invoices.

Interconnection revenue from domestic mobile operators increased 16.8% in the year ended March 31, 2004 due to tariff increases and increased mobile-to-fixed terminating traffic. In addition, a reduction in discounts also contributed to the increased revenue in the 2004 and 2003 financial years. Interconnection revenue from domestic mobile operators increased 13.9% in the year ended March 31, 2003 due to a reduction in the number of time bands for peak and off-peak tariffs from three to two on November 1, 2001, effectively increasing mobile termination rates, and increased mobile-to-fixed terminating traffic. Domestic mobile interconnection traffic increased 2.9% and 4.5% in the years ended March 31, 2004 and 2003, respectively, due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing our network.

Interconnection revenue from domestic operators includes fees paid to our fixed-line business by Vodacom of R417 million, R349 million and R306 million in the years ended March 31, 2004, 2003 and 2002 respectively. Fifty percent of these amounts was attributable to our interest in Vodacom and was eliminated from the Telkom Group's revenue on consolidation. We expect interconnection revenue from domestic operators to increase as a result of the entrance of the second national operator in the future and the further liberalisation of the South African telecommunications industry.

Interconnection revenue from international operators decreased 18.8% in the year ended March 31, 2004 primarily due to further decreases in the international interconnection tariffs in line with international trends, a decrease in the Rand value of international settlement rates due to the appreciation of the Rand against the SDR, the notional currency in which international settlement rates are determined. The decrease was partially offset by increased international interconnect traffic as a result of the growth in the international market. Interconnection revenue from international operators decreased 6.1% in the year ended March 31, 2003 due to a decrease in international interconnection tariffs in line with international trends and decreased international transiting traffic due to aggressive competition from other international carriers, partially offset by increases in the Rand value of international settlement rates due to a decline in the value of the Rand against the SDR and increases in international termination traffic.

Data

Data services comprise data transmission services, including leased lines and packet-based services, managed data networking services and internet access and related information technology services. In addition, data services include revenue from ADSL, which we launched in August 2002. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance.

Our data services revenue increased 13.5% and 15.4% in the years ended March 31, 2004 and 2003, respectively. The increases were primarily due to increased penetration of leased lines in corporate and business markets, increased demand for bandwidth with higher capacity, increased numbers of customers using data managed networking services, increased tariffs and, in the 2003 financial year, increased penetration of leased lines to mobile operators. In addition, internet access and related services revenue increased significantly in the year ended March 31, 2004. Revenue from leased line facilities from mobile operators decreased 2.2% in the year ended March 31, 2004 due to network optimisation initiatives by the mobile operators. Revenue from leased line facilities to mobile operators increased 22.7% in the year ended March 31, 2003 primarily due to growth in the mobile market and the introduction of Cell C in November 2001.

Operating revenue from our data services included R466 million, R482 million and R368 million in revenue received by our fixed-line business from Vodacom in the years ended March 31, 2004, 2003 and 2002, respectively. Fifty percent of these amounts was attributable to our interest in Vodacom and was eliminated from the Telkom Group's revenue on consolidation.

Directories and other services

Revenue from directories and other services consists primarily of advertising revenue from our subsidiary, Telkom Directory Services, and, to a substantially lesser degree, wireless data services revenue from our subsidiary, Swiftnet, and other miscellaneous revenue, including revenue from the sale of materials. Revenue from directories and other services increased 19.0% and 10.5% in the years ended March 31, 2004 and 2003, respectively. These increases were primarily due to increases in directory services revenue from Telkom Directory Services as a result of increased marketing efforts resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers.

Fixed-line operating expenses

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Employee expenses[1]	6,611	6,698	6,743	1.3	0.7
Payments to other network operators[2]	6,649	6,633	6,063	(0.2)	(8.6)
Selling, general and administrative expenses[3][4][5]	4,214	3,107	2,638	(26.3)	(15.1)
Services rendered[6]	2,216	2,570	2,202	16.0	(14.3)
Operating leases[6]	1,070	1,074	879	0.4	(18.2)
Depreciation, amortisation, impairments and asset write-offs[4]	4,808	5,310	5,983	10.4	12.7
Fixed-line operating expenses	25,568	25,392	24,508	(0.7)	(3.5)

(1) Employee expenses include retrenchment costs of R302 million, R244 million and R373 million in the years ended March 31, 2004, 2003 and 2002, respectively.

(2) Discounts offered on mobile-to-fixed interconnect of R9 million, R11 million and R33 million in the 2004, 2003 and 2002 financial years, respectively, and discounts on leased line facilities to mobile operators of R77 million, R82 million and R77 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from payments to other operators in operating expenses to an offset to operating revenue in the 2004 financial year. Payments to other operators for the 2003 and 2002 financial years have been revised to reflect the new presentation.

(3) Selling, general and administrative expenses include provisions for potential liabilities related to Telkom's arbitration with Telcordia of R325 million in the year ended March 31, 2002, excluding interest and legal fees. In the year ended March 31, 2003 we recorded a R117 million gain related to this provision in terms of IAS21 and IAS39 in finance charges as a result of the strengthening of the Rand. In addition, we included provisions for interest of R40 million and R50 million related to Telcordia in finance charges in the years ended March 31, 2003 and 2002, respectively, and a provision for legal fees of R58 million related to Telcordia is included in services rendered in the year ended March 31, 2003. In the year ended March 31, 2004, all of these provisions were reversed.

(4) Costs in respect of asset write-offs of R350 million, R205 million and R445 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from selling, general and administrative expenses to depreciation, amortisation, impairments and asset write-offs in the 2004 financial year. Selling, general and administrative expenses and depreciation, amortisation, impairments and asset write-offs for the 2003 and 2002 financial years have been revised to reflect the new presentation.

(5) Costs in respect of losses on the disposal of property, plant and equipment and investments of R6 million, R1 million and R1 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from selling, general and administrative expenses to other income in the 2004 financial year and R9 million of profit on sale of assets in the 2002 financial year was reclassified from selling, general and administrative expenses to other income in the 2004 financial year. Selling, general and administrative expenses has been revised to reflect the new presentation.

(6) Insurance costs paid to Debis for our vehicle fleet of R81 million, R81 million and R78 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from operating leases to services rendered in the 2004 financial year. Operating leases and services rendered for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Employee expenses

Employee expenses consist mainly of salaries and wages for employees, including bonuses and other incentives, benefits and employee retrenchment expenses.

The following table sets forth information related to our employee expenses for the periods indicated.

In millions, except percentages and number of employees	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Salaries and wages[1] [2]	5,044	4,825	4,795	(4.3)	(0.6)
Benefits[2]	1,786	2,127	2,161	19.1	1.6
Employee retrenchment expenses	373	244	302	(34.6)	23.8
Employee-related expenses capitalised	(592)	(498)	(515)	(15.9)	3.4
Employee expenses	6,611	6,698	6,743	1.3	0.7
Number of full-time, fixed-line employees[1]	40,030	35,942	32,934	(10.2)	(8.4)

(1) Includes employees of our Telkom Directory Services and Swiftnet subsidiaries.

(2) Homeowner's allowances, motor allowances, standby and related allowances of R728 million, R751 million and R721 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from benefits to salaries and wages in the 2004 financial year as they form part of basic remuneration packages. Benefits and salaries and wages for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Salaries and wages decreased 0.6% in the year ended March 31, 2004 primarily due to lower overtime, enabled by the implementation of a multiple shift schedule, the ongoing decrease in the number of employees as a result of our employee reduction programme and reduced part-time and temporary workers, partially offset by a 9% increase in base salaries and wages resulting from collective bargaining agreements. Salaries and wages decreased 4.3% in the year ended March 31, 2003 primarily due to reduced overtime as a result of the implementation of a multiple shift schedule, a decrease in the number of employees and reduced part-time and temporary workers, partially offset by a 7.5% increase in base salaries and wages pursuant to collective bargaining agreements during the year.

Benefits include allowances, such as bonuses, company contributions to medical aid, pension and retirement funds, leave provisions, workmen's compensation and levies payable for skills development. Benefits increased 1.6% in the 2004 financial year due to a requirement to include contributions for pension and medical aid in the leave provision, partially offset by the reduced number of employees. Benefits increased 19.1% in the year ended March 31, 2003 primarily due to increased bonuses paid under our team award and other incentive programmes as we met our financial and operational performance targets during the 2003 financial year.

Employee retrenchment expenses include the cost of voluntary early retirement, termination severance packages offered to employees and the cost of social plan expenses to equip redundant employees for new careers outside Telkom.

Employee retrenchment expenses increased 23.8% in the year ended March 31, 2004 due to the offering and acceptance of enhanced packages aimed primarily at staff on management level resulting in the average retrenchment package per employee increasing substantially. Employee retrenchment expenses decreased 34.6% in the year ended March 31, 2003 as lower numbers of employees were retrenched during the year. We retrenched, or notified of retrenchment, 1,633 employees in the 2004 financial year compared to 2,124 employees in the 2003 financial year and 2,960 in the 2002 financial year.

Employee-related expenses capitalised include employee-related expenses associated with construction and infrastructure development projects. Employee-related expenses capitalised increased 3.4% in the year ended March 31, 2004 due to the substitution of internal labour in lieu of subcontractors. Employee-related expenses capitalised decreased 15.9% in the year ended March 31, 2003 primarily due to reduced capital expenditures.

Payments to other network operators

	Year ended March 31,				
In millions, except percentages	2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Payments to mobile communications network operators(1)	5,199	5,235	5,041	0.7	(3.7)
Payments to international network operators	1,450	1,398	1,022	(3.6)	(26.9)
Payments to other network operators	6,649	6,633	6,063	(0.2)	(8.6)

(1) Discounts offered on mobile-to-fixed interconnect of R9 million, R11 million and R33 million in the 2004, 2003 and 2002 financial years, respectively, and discounts on leased line facilities to mobile operators of R77 million, R82 million and R77 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from payments to other operators in operating expenses to an offset to operating revenue in the 2004 financial year. Payments to other operators for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Payments to other network operators decreased 8.6% in the year ended March 31, 2004 primarily due to lower volumes of calls from our fixed-line network to the mobile networks and the strength of the Rand against the SDR, resulting in lower international settlement rates. Payments to other network operators remained relatively constant, decreasing 0.2% in the year ended March 31, 2003. The decrease was primarily due to the strength of the Rand against the SDR, resulting in lower international settlement rates. The decrease was partially offset by increased termination rates from November 2001 pursuant to our amended interconnection agreement with mobile operators and increased outgoing traffic. Payments to other network operators include payments made by our fixed-line business to Vodacom, which were R2,764 million in the year ended March 31, 2004, R2,978 million in the year ended March 31, 2003 and R2,968 million in the year ended March 31, 2002. Fifty percent of these amounts was attributable to our interest in Vodacom and was eliminated from the Telkom Group's expenses on consolidation.

Selling, general and administrative expenses

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Materials and maintenance	2,093	1,932	1,623	(7.7)	(16.0)
Marketing	346	296	306	(14.5)	3.4
Bad debts	965	215	228	(77.7)	6.0
Other	810	664	481	(18.0)	(27.6)
Selling, general and administrative expenses(1)	4,214	3,107	2,638	(26.3)	(15.1)

(1) Selling, general and administrative expenses include provisions for potential liabilities related to Telkom's arbitration with Telcordia of R325 million in the year ended March 31, 2002, excluding interest and legal fees. In the year ended March 31, 2003, we recorded a R117 million gain related to this provision in terms of IAS21 and IAS39 in finance charges as a result of the strengthening of the Rand. In addition, we included provisions for interest of R40 million and R50 million related to Telcordia in finance charges in the years ended March 31, 2003 and 2002, respectively, and a provision for legal fees of R58 million related to Telcordia is included in services rendered in the year ended March 31, 2003. In the year ended March 31, 2004, all of these provisions were reversed. Costs in respect of asset write-offs of R350 million, R205 million and R445 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from selling, general and administrative expenses to depreciation, amortisation, impairments and asset write-offs in the 2004 financial year. Costs in respect of losses on the disposal of property, plant and equipment and investments of R6 million, R1 million and R1 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from selling, general and administrative expenses to other income in the 2004 financial year and R9 million of profit on sale of assets in the 2002 financial year was reclassified from selling, general and administrative expenses to other income in the 2004 financial year. Selling, general and administrative expenses for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Materials and maintenance expenses include stock write-offs, subcontractors' payments and consumables required to maintain our network. Materials and maintenance expenses decreased 16.0% in the year ended March 31, 2004 primarily due to the impact of improved efficiencies and cost-saving initiatives, a lower incidence of theft and faults in the network and a favourable exchange rate. Materials and maintenance expenses decreased 7.7% in the year ended March 31, 2003 due to improved efficiencies.

Marketing expenses increased 3.4% in the year ended March 31, 2004 primarily due to increased branding cost to support South Africa's 2010 soccer world cup bid being partially offset by lower expenses for education and other image campaigns. Marketing expenses decreased 14.5% in the year ended March 31, 2003 primarily due to reduced operational marketing expense as a result of cost-containment initiatives. We expect marketing expenses to continue to increase in the future in response to increased competition from the second national operator and the further liberalisation of the South African communications industry generally.

Bad debt increased R13 million in the year ended March 31, 2004 following revenue growth of R1.4 billion in the same period. Bad debt as a percentage of revenue was 0.7%, 0.7% and 3.5% in the years ending 2004, 2003 and 2002, respectively. Our bad debt expense in 2002 was significantly higher than subsequent years due to the roll-out of our mandated fixed-line targets to underserviced areas. Since then our improved credit management and credit vetting policies combined with only targeted line roll-out where it is economical has significantly reduced our bad debt expense.

Other expenses include obsolete stock, cost of sales, subsistence and travel and an offset for bad debts recovered. Other expenses decreased 27.6% in the year ended March 31, 2004 primarily due to reversal of the R325 million provision for the Telcordia dispute following the judgment handed down by the South African High Court on November 27, 2003, setting aside the partial award and issuing a cost order in favour of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. As a result, the Telcordia dispute has been referred back to arbitration. Other expenses decreased 18.0% in the year ended March 31, 2003. Other expenses in the 2002 financial year were impacted by the inclusion of a R325 million provision, excluding interest and legal fees, related to the Telcordia dispute. Excluding the reversal of the Telcordia provision in the 2004 financial year, other expense increased in the 2004 financial year. Excluding the Telcordia provision in the 2002 financial year, other expenses increased in the 2003 financial year primarily due to the inclusion of an R80 million provision for a probable expense relating to certain services rendered to international carriers, a R61 million provision for penalties payable pursuant to our strategic services agreement for failing to meet certain training targets and higher capitalised expenses in the 2002 financial year.

Services rendered

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Property management[1]	1,241	1,233	1,164	(0.6)	(5.6)
Consultants, security and other[1] [2]	975	1,337	1,038	37.1	(22.4)
Services rendered	2,216	2,570	2,202	16.0	(14.3)

(1) Management fees paid to TFMC relating to property management expenses of R146 million, R147 million and R145 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from consultants, security and other to property management in the 2004 financial year. Consultants, security and other and property management for the 2003 and 2002 financial years have been revised to reflect the new presentation.

(2) Insurance costs paid to Debis for our vehicle fleet of R81 million, R81 million and R78 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from operating leases to services rendered in the 2004 financial year. Services rendered for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Property management decreased 5.6% in the year ended March 31, 2004 primarily due to consolidation of properties and general efficiencies in maintenance, cleaning and utilities usage. Property management decreased 0.6% in the year ended March 31, 2003 primarily due to lower maintenance and cleaning expense as a result of renegotiated contracts and reduced service level agreements, partially offset by increased utilities and retrenchment costs for contractors' staff.

Payments to consultants decreased 22.4% in the year ended March 31, 2004 primarily due to the non-recurring professional services expenses related to our initial public offering in the 2003 financial year and a reduction in fees paid to Thintana Communications as a result of fewer key personnel, reduced management fees and a more favourable exchange rate, and a reversal of legal fees related to Telcordia. Consultants, security and other payments increased 37.1% in the year ended March 31, 2003 primarily due to increased costs and expenses for auditors, legal and management costs related to our initial public offering, the provisioning of Dollar denominated amounts paid under the strategic services agreement at spot rate in accordance with IAS39, increased provisions for legal fees related to our dispute with Telcordia Technologies and increased insurance costs. Amounts paid for the strategic services agreement were accounted for in our financial statements at the forward rate after taking into account the hedged amounts under foreign currency contracts in the year ended March 31, 2002 and at the spot rate in the years ended March 31, 2003 and 2004. Consultants, security and other payments included R213 million of expenses related to our initial public offering in the year ended March 31, 2003. Consultants, security and other payments include expenses of R154 million, R273 million and R219 million in the years ended March 31, 2004, 2003 and 2002, respectively, for the strategic services provided by our strategic equity investor, Thintana Communications, pursuant to our strategic service agreement. The fees paid to Thintana Communications at the forward cover rate were R126 million in the 2003 financial year and the spot rate for such fees was R396 million in the 2002 financial year. A portion of payments made to Thintana Communications relate to capital projects and have been capitalised.

Operating leases

Operating leases include payments in respect of equipment, buildings and vehicles. Insurance costs paid to Debis for our vehicle fleet of R81 million, R81 million and R78 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from operating leases to services rendered in the 2004 financial year. Operating leases for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Operating leases decreased 18.2% in the year ended March 31, 2004 primarily due to a 6% decrease in the number of vehicles in our fleet from 12,601 vehicles as of March 31, 2003 to 11,849 vehicles as of March 31, 2004. Our space optimisation programme, which relocated employees from leased premises to owned premises and improved overall space utilisation, also contributed to a 33.2% decline in lease expense. Operating leases remained relatively constant, increasing 0.4% in the year ended March 31, 2003 primarily due to increased vehicle lease expenses and, to a lesser extent, increased expense in connection with surveillance and monitoring equipment leases to protect against theft, partially offset by a decrease in building leases. The decrease in vehicle lease expenses associated with the decrease in our vehicle fleet from 16,627 vehicles at March 31, 2002 to 12,601 vehicles at March 31, 2003 was offset by significant expenses associated with equipment upgrades to our vehicle fleet, increased lease payments tied to inflation and interest rates and increased fuel cost.

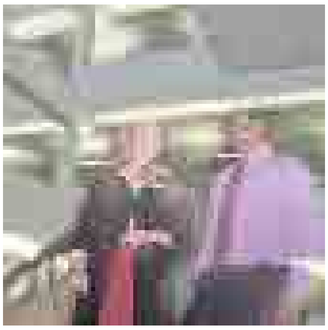
Depreciation, amortisation, impairments and asset write-offs

Costs in respect of asset write-offs of R350 million, R205 million and R445 million in the 2004, 2003 and 2002 financial years, respectively, were reclassified from selling, general and administrative expenses to depreciation, amortisation, impairments and asset write-offs in the 2004 financial year. Depreciation, amortisation, impairments and asset write-offs for the 2003 and 2002 financial years have been revised to reflect the new presentation.

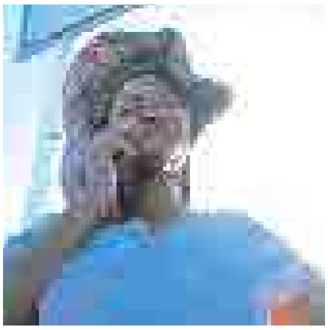
Depreciation, amortisation, impairments and asset write-offs increased 12.7% in the year ended March 31, 2004 primarily due to ongoing investment in telecommunications equipment, data processing and support equipment and higher impairments and asset write-offs due to the write-off of an increased level of assets and the additional impairment of network-related assets. Depreciation, amortisation, impairments and asset write-offs increased 10.4% in the year ended March 31, 2003 primarily due to investment in telecommunications equipment, data processing equipment, support equipment and buildings, including investment in payphones, cables, switching and transmission equipment and process control and surveillance equipment with shorter lives.

Asset write-offs decreased significantly in the years ended March 31, 2004 and 2003 primarily due to the inclusion of the R346 million write-off of Telcordia-related assets in the 2002 financial year and the write-off of fewer network assets in the 2003 and 2004 financial years. We incurred a R149 million impairment of Telkom's satellite earth station at Hartebeespoort in the 2004 financial year.

Satisfying customer demand for bandwidth, flexibility and reliability, we grew our internet protocol data transmission portfolio by introducing VPN Supreme – our flagship IP-based Virtual Private Network product.



Mobile segment



Mobile is our fastest growing segment and encompasses all the operating activities of our 50% joint venture investment in Vodacom, the largest mobile operator in South Africa with an approximate 54% market share as of March 31, 2004 based on total estimated customers in South Africa. In addition to its South African operations, Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique.

The following table shows information related to our 50% share of Vodacom's operating revenue and operating profit broken down by Vodacom's South African operations and operations in other African countries for the periods indicated. All amounts in this table and the discussion of our mobile segment that follows represent 50% of Vodacom's results of operations unless otherwise stated and are before the elimination of inter-company transactions with us.

Mobile segment summary

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Revenue	8,075	9,890	11,739	22.5	18.7
Operating expenses	6,275	7,759	9,147	23.6	17.9
Operating profit	1,816	2,166	2,617	19.3	20.8
EBITDA	2,851	3,354	3,883	17.6	15.8
Capital expenditure	2,042	1,699	1,445	(16.8)	(14.9)
Operating profit margin (%)	22.5	21.9	22.3		
EBITDA margin (%)	35.3	33.9	33.1		
Capex to revenue (%)	25.3	17.2	12.3		

Mobile operating revenue

The following table shows our 50% share of Vodacom's revenue broken down by major revenue type and as a percentage of total operating revenue for our mobile segment and the percentage change by revenue type for the periods indicated. In the 2004 financial year, Vodacom revised the segmental presentation of its operating revenue to include data revenue, which was previously included in airtime revenue, as a new line item in its financial statements.

In millions, except percentages	Year ended March 31, 2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Airtime	4,515	5,323	6,369	17.9	19.7
Data	228	327	520	43.4	59.0
Interconnection	2,150	2,655	2,892	23.5	8.9
Equipment sales	814	1,132	1,449	39.1	28.0
International airtime	151	270	330	78.8	22.2
Other sales and services	217	183	179	(15.7)	(2.2)
Mobile operating revenue	8,075	9,890	11,739	22.5	18.7

Vodacom's operating revenue increased 18.7% in the year ended March 31, 2004 primarily driven by strong customer growth and standard tariff increases. Equipment sales increased primarily due to Vodacom's expanded customer base in its Vodacom Congo operations and the significant increase in sales of new handsets in South Africa fuelled by cheaper Rand prices of MMS- and GPRS-enabled handsets coupled with the added functionality of the new phones, such as built-in digital cameras, as well as increased connections. Our 50% share of Vodacom's revenue from operations outside of South Africa increased to R748 million in the year ended March 31, 2004 from R618 million in the year ended March 31, 2003. The increase was due to substantial increases in the number of customers in Vodacom's operations in the Democratic Republic of Congo and Tanzania, partially offset by the strength of the Rand, which resulted in lower US Dollar denominated tariffs. Revenue from Vodacom's operations outside of South Africa as a percentage of Vodacom's total mobile operating revenue increased to 6.4% in the year ended March 31, 2004 from 6.2% in the year ended March 31, 2003.

Vodacom's operating revenue increased 22.5% in the year ended March 31, 2003 primarily driven by customer growth and to a lesser extent by standard tariff increases. The increase in Vodacom's operating revenue was further boosted by a R317 million increase in equipment sales primarily due to sales in the Democratic Republic of the Congo and Tanzania, as well as an uptake of 2.5 generation handsets in South Africa. Our 50% share of Vodacom's revenue from operations outside of South Africa increased to R618 million in the year ended March 31, 2003 from R370 million in the year ended March 31, 2002. The increases were due to substantial increases in the number of customers in Vodacom's operations in Tanzania and the Democratic Republic of Congo. Revenue from Vodacom's operations outside of South Africa as a percentage of Vodacom's total mobile operating revenue increased to 6.2% in the year ended March 31, 2003 from 4.6% in the year ended March 31, 2002.

A large part of the growth in mobile services was due to the success of prepaid services. Approximately 85.2% of Vodacom's South African mobile customers were prepaid customers at March 31, 2004. Vodacom expects the number of prepaid mobile users to continue to grow as a percentage of total mobile users. Prepaid customers on average tend to use fewer minutes and generate lower revenue than contract customers. As a result, average monthly minutes of use per customer and ARPU are lower for prepaid customers. The increasing percentage of prepaid users has resulted in decreasing overall average revenue per customer, despite increasing average revenue per contract customer.

Vodacom believes that the decline in its total ARPU in South Africa in recent years has begun to slow primarily due to the impact of new, higher ARPU prepaid products, such as 4U, the continued growth in contract ARPU and slower growth rates in overall customers. In the 2004 financial year, however, total ARPU in South Africa declined by 3.3% due to the continued dilution as a result of the higher proportion of prepaid connections with lower ARPU than contract customers. South African contract ARPU grew by 0.8% to R634 per month for the year ended March 31, 2004, as compared to R629 per month in the year ended March 31, 2003, while prepaid ARPU over the same period remained stable at R90 per month. Community services ARPU in South Africa increased 15.8% and 8.3% in the years ended March 31, 2004 and 2003, respectively. In the 2004 financial year, one community service phone was equivalent to 38 prepaid customers on an outgoing revenue basis and nearly 127 prepaid customers on a usage basis since calls from community services phones are subsidised.

In South Africa, Vodacom's total ARPU remained relatively constant, increasing 0.5% in the year ended March 31, 2003 primarily due to the introduction of new, higher ARPU, such as 4U, the continued growth in contract ARPU in South Africa and competition. In South Africa, Vodacom's total ARPU decreased 12.5% in the year ended March 31, 2002 primarily due to the increase in the percentage of prepaid customers in Vodacom's total customer base from 79% as of March 31, 2001 to 83% as of March 31, 2002. Vodacom's contract ARPU in South Africa increased 12.3% and 13.6% in the years ended March 31, 2003 and 2002, respectively. Prepaid ARPU in South Africa decreased 3.2% and 5.1% in the years ended March 31, 2003 and 2002, respectively, primarily due to a decrease in average monthly minutes of use per prepaid customer as newer prepaid customers tend to be in lower income tiers. Community services ARPU in South Africa increased 8.3% and 18.3% in the years ended March 31, 2003 and 2002, respectively.

Service providers in South Africa generally subsidise handset sales for contract customers. Subsidised handset sales give customers an incentive to switch operators to obtain new handsets and have contributed to churn. Handsets for prepaid customers are not subsidised by Vodacom as these users have the freedom of switching operators and contribute to churn. Vodacom is more vulnerable to churn than other mobile communications providers in South Africa since it has the largest number of customers in South Africa.

Vodacom's churn rate for contract customers in South Africa decreased to 10.1%, in the year ended March 31, 2004 from 11.9% in the year ended March 31, 2003 and 14.5% in the year ended March 31, 2002. Vodacom's churn rate for prepaid customers in South Africa increased to 41.3% in the year ended March 31, 2004 and 34.0% in the year ended March 31, 2003 from 30.1% in the year ended March 31, 2002. The high prepaid churn is associated with an increasingly competitive market, lower barriers to entry for prepaid customers in South Africa and the volatile nature of the prepaid customer base, as well as changes to Vodacom's policy governing disconnections. Prepaid customers were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period, expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers to align itself with European and industry standards. From December 2003, prepaid customers are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days.

Airtime

Vodacom's airtime revenue increased 19.7% and 17.9% in the years ended March 31, 2004 and 2003, respectively, primarily due to the increase in the number of Vodacom's customers, and, to a lesser extent, standard tariff increases. As Vodacom's primary market in South Africa continues to mature and Vodacom continues to connect more marginal customers in its South African operations, Vodacom expects that growth in airtime in South Africa will continue to slow. Total customers increased 29.7% and 26.0% in the years ended March 31, 2004 and 2003, respectively, primarily due to strong prepaid customer growth in South Africa and significant customer growth in Vodacom's operations outside of South Africa. New products, packages and services also had a substantial role in Vodacom's customer growth in the 2004 and 2003 financial years. Vodacom introduced Call Sponsor, which enables contract customers to sponsor the calls of up to three prepaid customers.

Data revenue

Vodacom's mobile data revenue increased 59.0% to R1,039 million in the year ended March 31, 2004 and 43.1% to R654 million in the year ended March 31, 2003 from R457 million in the year ended March 31, 2002, 50% of which is included in the Telkom Group's revenue. Vodacom's data revenue increased primarily due to increased SMS usage, while traffic increased to 2.0 billion SMSs over its network in the year ended March 31, 2004 from 1.5 billion SMSs in the year ended March 31, 2003 and 911 million SMSs in the year ended March 31, 2002. Vodacom introduced SMS-only roaming and a number of promotional offerings such as MMS and SMS bundles in the 2004 financial year. SMS roaming affords customers the ability to activate SMS-only roaming.

Interconnection

Vodacom's interconnection revenue increased 8.9% and 23.5% in the years ended March 31, 2004 and 2003, respectively, primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally. Adding to the growth in interconnection revenue in the 2003 and 2004 financial years was a strong increase in Cell C's customer base and the resultant increase in national roaming revenue as well as increased interconnection revenue from Vodacom's other African operations. The increases were partially offset by a decrease in the number of fixed-line calls from Telkom's network terminating on Vodacom's network. Interconnection revenue in our mobile segment included R1,387 million, R1,489 million and R1,484 million in the years ended March 31, 2004, 2003 and 2002, respectively, for services received from our fixed-line business, which were eliminated from the Telkom Group's revenue on consolidation.

Equipment sales

Vodacom's revenue from equipment sales increased 28.0% in the year ended March 31, 2004 primarily due to Vodacom's expanded customer base in its Vodacom Congo operations and the significant increase in sales of new handsets in South Africa fuelled by cheaper Rand prices of MMS- and GPRS-enabled handsets coupled with the added functionality of the new phones, such as built-in digital cameras, as well as increased connections.

Vodacom's revenue from equipment sales increased 39.1% in the year ended March 31, 2003 primarily due to large volumes of equipment sales by Vodacom Tanzania and Vodacom Congo, as well as the roll-out of 2.5 generation phones, which are second generation phones with feature enhancements, in South Africa. The introduction of MMS and GPRS, as well as other value-added services, contributed to the increase in 2.5 generation equipment sales, which was driven by Vodacom's service providers and dealers.

International airtime

Vodacom's revenue from international airtime increased 22.2% and 78.8% in the years ended March 31, 2004 and 2003, respectively, primarily due to increased call activity in South Africa and other African countries. The increase in the call activity during the 2004 and 2003 financial years was primarily due to a 30.5% and 23.8% increase in Vodacom's South African customers roaming internationally and a 12.5% and 32.6% increase in international visitors roaming in South Africa, respectively.

Other
Vodacom's other revenue decreased 2.2% and 15.7% in the years ended March 31, 2004 and 2003. The decrease in the 2003 financial year was primarily due to a decline in the sale of non-core assets, such as Teljoy television, which was sold in March 2002.

Mobile operating expenses

The following is a discussion of our mobile segment's operating expenses which are comprised of our 50% interest in Vodacom's operating expenses. Vodacom's operating expense line items are presented in accordance with the line items reflected in the Telkom Group's consolidated operating expenses, which are different from the operating expense line items contained in Vodacom's consolidated financial statements. In the 2004 financial year, we revised our presentation to remove other income from operating expense.

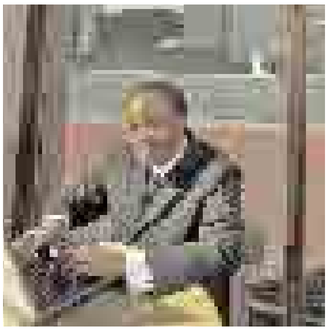
The following table shows our 50% share of Vodacom's operating expenses and the percentage change for the periods indicated.

	Year ended March 31,				
In millions, except percentages	2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Employee expense	568	509	666	(10.4)	30.8
Payments to other network operators	689	1,109	1,495	61.0	34.8
Selling, general and administrative expenses(1)	3,690	4,615	5,389	25.1	16.8
Services rendered	56	65	65	16.1	–
Operating leases	237	273	266	15.2	(2.6)
Depreciation and amortisation	1,035	1,188	1,266	14.8	6.6
Mobile operating expenses	6,275	7,759	9,147	23.6	17.9

(1) Profit on the disposal of property, plant and equipment and investments of R1 million and R1 million in the 2003 and 2002 financial years, respectively, were reclassified from selling, distribution and other expenses to other income in the 2004 financial year. Selling, distribution and other expenses for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Employee expenses
Vodacom's employee expenses increased 30.8% in the year ended March 31, 2004 primarily due to the employee deferred bonus incentive accrual resulting from Vodacom's higher net profit, an average Group-wide salary increase of 8.0% and a 4.6% increase in the number of employees. Vodacom increased the total number of its employees by 51.6% in its other African operations and reduced the total number of employees by 1.4% in its operations in South Africa as of March 31, 2004. Employee productivity in South Africa and other African countries, as measured by customers per employee, increased 23.9% to 2434 customers per employee as of March 31, 2004.

Vodacom further entrenched its foothold in Africa by launching commercial operations in Mozambique and extending coverage in the DRC to all nine provinces.



Vodacom's employee expenses decreased 10.4% in the year ended March 31, 2003 primarily due to lower deferred bonus incentive accruals as a result of Vodacom's lower net profit, which was adversely impacted by IAS39 in the 2003 financial year. Vodacom decreased the number of its temporary employees from 423 as of March 31, 2002 to 219 as of March 31, 2003 primarily in its operations in South Africa and the Democratic Republic of the Congo, which further contributed to the decrease in employee expense in the 2003 financial year as temporary employees are generally more expensive than permanent employees. The decrease in employee expense in the 2003 financial year was partially offset by an 8.0% overall increase in average employee salaries and a 1.2% increase in employees. Employee productivity in South Africa and other African countries, as measured by customers per employee, increased 24.5% to 1,963 customers per employee as of March 31, 2003 from 1,577 customers per employee as of March 31, 2002.

Payments to other network operators

Vodacom's payments to other network operators increased significantly in both the years ended March 31, 2004 and 2003 as a result of increased outgoing traffic in line with increased customer growth and the increasing percentage of outgoing traffic terminating on the other mobile networks rather than Telkom's fixed-line network as the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. The increase was also due to the increase in interconnection tariffs under Vodacom's interconnection agreements in November 2001 and January 2003 for traffic terminating on other mobile networks and Telkom's fixed-line network. As the mobile communications market continues to grow in South Africa, Vodacom expects that interconnection charges will continue to increase and adversely impact Vodacom's profit margins.

Payments to other network operators in our mobile segment included R209 million, R174 million and R153 million in the years ended March 31, 2004, 2003 and 2002, respectively, for interconnection fees paid to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Selling, general and administrative expenses

The following table sets forth information related to our 50% share of Vodacom's selling, general and administrative expenses for the periods indicated.

	Year ended March 31,				
In millions, except percentages	2002 ZAR	2003 ZAR	2004 ZAR	2003/2002 % change	2004/2003 % change
Selling, distribution and other(1)	3,204	4,014	4,739	25.3	18.1
Marketing	271	326	351	20.3	7.7
Regulatory and licence fees	192	252	275	31.3	9.1
Bad debts	23	23	24	–	4.3
Selling, general and administrative expenses	3,690	4,615	5,389	25.1	16.8

(1) Profit on the disposal of property, plant and equipment and investments of R1 million and R1 million in the 2003 and 2002 financial years, respectively, were reclassified from selling, distribution and other expenses to other income in the 2004 financial year. Selling, distribution and other expenses for the 2003 and 2002 financial years have been revised to reflect the new presentation.

Vodacom's selling, general and administrative expenses increased 16.8% and 25.1% in the years ended March 31, 2004 and 2003, respectively, primarily due to an increase in selling, distribution and other expenses, incentive costs, regulatory and licence fees and marketing expenses to support the growth in Vodacom's South African and other African operations and increased competition. Selling, distribution and other expenses include cost of goods sold, commissions, subscriber acquisition and retention expenses, distribution expenses and insurance. The increase in selling and distribution expenses over the three-year period was directly related to the increase in customer connections, competition and operating revenue, although the selling and distribution incentive costs increased faster than revenue growth in the 2003 financial year as competition in the South African market intensified. The increase in selling, distribution and other expense in the 2003 and 2004 financial years also included significant expense due to Vodacom's continued expansion into Africa as well as the pursuit of operations in Nigeria, including expenses related to secondees to other African countries and high overhead costs such as accommodation, insurance and consulting fees. The increase in marketing expenses in the 2003 financial year was mainly due to significant marketing expense incurred launching Vodacom Congo and the increase in marketing expenses in the 2004 financial year was mainly due to inflationary increases in South African expenditure and the marketing expenses incurred launching Vodacom Mozambique, partially offset by decreases in Rand terms in Vodacom Tanzania, Vodacom Congo and Vodacom Lesotho. The increase in regulatory and licence fees during the same period was also directly related to the increase in operating revenues and corresponding payments under Vodacom's existing licences, coupled with payments made to secure temporary licences for GSM 1800 frequency spectrum in South Africa.

Services rendered

Services rendered include consultancy services for technical, administrative and managerial services, audit fees, legal fees and communication and information technology costs. Services rendered were flat for the year ended March 31, 2004 and increased 16.1% in the year ended March 31, 2003 primarily due to an increase in support, audit and consulting services for Vodacom's other African operations, particularly Vodacom Congo and Vodacom Tanzania, as well as an increase in information technology costs due to expansion and upgrades in the 2002 financial year.

Operating leases

Operating leases include payments in respect of rentals of GSM transmission lines as well as office accommodation, office equipment and motor vehicles. Vodacom's operating leases decreased 2.6% in the year ended March 31, 2004 as Vodacom elected to purchase certain buildings that were previously leased. Vodacom's operating leases increased 15.2% in the year ended March 31, 2003 primarily due to the cost of transmission and data lines required for its South African network and in the Democratic Republic of the Congo. Operating leases in our mobile segment included R233 million, R241 million and R184 million in the years ended March 31, 2004, 2003 and 2002, respectively, for operating lease payments to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Depreciation and amortisation

Vodacom's depreciation and amortisation increased 6.6% and 14.8% in the years ended March 31, 2004 and 2003, respectively. The increases were primarily the result of depreciation and amortisation of capital expenditures Vodacom incurred in building out its network in South Africa and other sub-Saharan African countries. Amortisation of intangibles increased slightly in the year ended March 31, 2004, increasing 2.4% to R216 million and remained relatively constant in the 2003 financial year, decreasing 0.9% to R211 million from R213 million in the year ended March 31, 2002. Vodacom's declining growth in depreciation results from the substantial completion of its major capital investments in South Africa. In addition, because of the significant strengthening of the Rand against the US Dollar in the year ended March 31, 2004 and 2003, depreciation on foreign-denominated capital expenditure in its other African operations for the 2004 financial year has been translated at a lower exchange rate than in the past, which resulted in a relatively lower depreciation charge for the 2004 financial year.

Group liquidity and capital resources

Cash flows

The following table shows information regarding our consolidated cash flows for the periods indicated.

	Year ended March 31,				
	2002	2003	2004	2003/2002	2004/2003
In millions, except percentages	ZAR	ZAR	ZAR	% change	% change
Cash flows from operating activities	8,171	9,748	13,884	19.3	42.4
Cash flows used in investing activities	(9,250)	(5,731)	(5,423)	(38.0)	(5.4)
Cash flows (used in)/from financing activities[1]	66	(3,026)	(6,481)	n/a	114.2
Net increase/(decrease) in cash and cash equivalents	(1,013)	991	1,980	(197.8)	99.8
Effect of foreign exchange rate differences	48	(56)	(21)	(216.7)	(62.5)
Net cash and cash equivalents at the beginning of the year	867	(98)	837	(111.3)	n/a
Net cash and cash equivalents at the end of the year	(98)	837	2,796	n/a	234.1

(1) Includes costs related to our initial public offering of R154 million and R44 million in the years ended March 31, 2003 and March 31, 2002 respectively.

Cash flows from operating activities

Our primary sources of liquidity are cash flows from operating activities and borrowings. In the future, we intend to fund our expenses, indebtedness and working capital requirements from our operations and from capital raised in the markets. Cash flows from operating activities increased over the three-year period by 42.4% to R13,884 million in the 2004 financial year and 19.3% to R9,748 million in the 2003 financial year from R8,171 million in the 2002 financial year. The increase in the 2004 financial year was primarily due to higher cash receipts from customers, lower cash paid to suppliers and decreased interest expense, partially offset by dividends and increased taxes paid. The increase in the 2003 financial year was primarily due to higher cash receipts from customers, tax refunds and decreased interest expense, partially offset by increased cash paid to suppliers and Vodacom employees.

Cash flows used in investing activities

Cash flows used in investing activities relate primarily to investments in our fixed-line network and our 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. Cash flows used in investing activities decreased by 5.4% to R5,423 million in the 2004 financial year and 38.0% to R5,731 million in the 2003 financial year from R9,250 million in the 2002 financial year. The decrease in the 2004 financial year was primarily due to an overall reduction in capital expenditure, mainly in our mobile segment. The decrease in the 2003 financial year was primarily due to a reduction in capital expenditure in our fixed-line network and, to a lesser extent, in mobile operations.

Cash flows (used in)/from financing activities

Cash flows from financing activities are primarily a function of borrowing activities.

In the 2004 financial year, loans and finance leases repaid, the purchase of treasury shares and the increase in interest-bearing investments exceeded loans raised by R6,379 million. We repaid a R4,311 million 10.75% unsecured local bond due September 30, 2003 and a R1,201 million 13% unsecured local bond due May 31, 2004. A net R67 million of commercial paper bills was repaid and we also settled R140 million of repurchase agreements and bills of exchange of R1,978 million. Vodacom repaid R920 million of shareholder loans in the 2004 financial year. Vodacom Congo (RDC) s.p.r.l., a subsidiary of Vodacom, entered into a Euro revolving credit facility of 11.5 million Euro (R186.9 million) and Vodacom Tanzania Limited, a subsidiary of Vodacom, repaid $4 million and TSH 4,388 million (R56 million) in the 2004 financial year. Telkom's 50% share of the Vodacom debt is included in Telkom's consolidated statements.

In the 2003 financial year, loans repaid and the increase in interest-bearing investments exceeded loans raised and finance leases raised by R2,872 million. We repaid a net of R1,371 million of commercial paper bills, a R689 million 10.75% unsecured local bond due September 20, 2003, a R359 million loan from European Investment Bank and a R200 million 12.5% coupon, unsecured loan stock due April 15, 2002 in the 2003 financial year. We increased our interest-bearing investments, including repurchase agreements and bills of exchange, by R468 million. We also incurred R154 million in costs related to our initial public offering in the 2003 financial year. Vodacom repaid R426 million of its debt including the repayment of R400 million of funding loans, in the 2003 financial year. Telkom's 50% share of R213 million is included in loans repaid. Vodacom raised foreign debt of R932 million primarily as a result of a R336 million utilisation of an extended credit facility for Vodacom Congo and a R502 million draw down of a project financing facility in Tanzania. Telkom's 50% share of R419 million is included in loans raised.

In the 2002 financial year, loans raised and the decrease in interest-bearing investments exceeded loans repaid by R110 million. We repaid three syndicated loans of $185 million, $150 million and $250 million in the 2002 financial year. We also repaid net R392 million of commercial paper bills during the year. We decreased our interest-bearing investments, including repurchase agreements and bills of exchange, by R865 million. During the 2002 financial year, we issued R2,300 million aggregate principal amount of 10.75% bonds due 2003 and R1,500 million aggregate principal amount of 10.5% bonds due 2006. We also incurred R44 million in costs related to our initial public offering in the 2002 financial year.

Working capital

We had negative consolidated working capital of R3.4 billion as of March 31, 2004 compared to negative consolidated working capital of R4.3 billion as of March 31, 2003 and R1.8 billion as of March 31, 2002. Negative working capital arises when current liabilities are greater than current assets. We redeemed R1.2 billion of our consolidated R3.5 billion of indebtedness that was due in the 2005 financial year, which contributed to the improvement in working capital in the 2004 financial year. The decline in our working capital in the 2003 financial year was mainly due to the R4.7 billion of indebtedness that was required to be repaid in the 2004 financial year. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with proceeds from liquidity available under credit facilities and in the capital markets, will be sufficient to meet the Telkom Group's present working capital requirements for the twelve months following the date of this annual report. We intend to fund current liabilities through a combination of operating cash flows, new borrowings and borrowings available under existing credit facilities.

Capital expenditures and investments

We have made significant capital expenditures in connection with our five-year fixed-line network modernisation and roll-out programme, while Vodacom has also made significant capital expenditures in building and upgrading its mobile network in South Africa and other African countries.

The following table shows the Telkom Group's investments in property, plant and equipment excluding intangibles, including our 50% share of Vodacom's investments, for the periods indicated.

In millions	2002 ZAR	Year ended March 31, 2003 ZAR	2004 ZAR
Group capital expenditure			
Fixed-line	6,962	4,013	3,862
Base expansion and core network	2,831	1,662	1,632
Network evolution	1,906	968	668
Efficiencies and improvements	1,743	1,226	1,201
Company support and other	482	157	361
Mobile	2,042	1,699	1,445
Investment in property, plant and equipment	9,004	5,712	5,307

We spent approximately R3.9 billion ($617 million) on fixed-line capital expenditures in the year ended March 31, 2004, which was lower than budgeted fixed-line capital expenditure for the 2004 financial year of R5.0 billion and 3.8% less than fixed-line capital expenditures in the 2003 fiscal year, primarily as a result of more stringent investment criteria for capital investment in our fixed-line segment, and savings resulting from the relative strength of the Rand against the US Dollar and Euro. In the future, we intend to continue to selectively invest in our fixed-line segment on a smaller scale based on customer demand and economic viability. We also intend to concentrate capital expenditures in growing business areas such as data services and for improving the quality and efficiency of our network and support systems. Our consolidated capital expenditures in property, plant and equipment for the 2005 financial year is budgeted to be approximately R6.6 billion, of which approximately R4.6 billion is budgeted to be spent in our fixed-line segment and approximately R2.0 billion is budgeted to be spent in our mobile segment, which is our 50% share of Vodacom's capital expenditure of approximately R4.0 billion. Our capital expenditures are continuously examined and evaluated against the economic benefit and may be revised in light of changing business conditions, investment opportunities and other business factors.

Commitments

We estimate our commitments in respect of property, plant and equipment leases in the next five years to be approximately R1.3 billion. Our annual commitments under operating leases, as of March 31, 2004, are as follows:

In millions	Total ZAR	Within one year ZAR	Between one and five years ZAR	Over five years ZAR
Buildings	809	141	365	303
Rental receivable on buildings	(227)	(57)	(125)	(45)
Transmission and data lines	64	17	46	1
Equipment	37	23	14	–
Vehicles	540	540	–	–
Sport and marketing contracts	364	149	215	–
Commitments	1,587	813	515	259

Telkom has entered into a full maintenance lease agreement for its vehicles with Debis Fleet Management (Proprietary) Limited, a company incorporated in the Republic of South Africa. The master lease agreement is for a period of five years and expires on March 31, 2005. As there is no minimum usage clause in the master lease agreement, only the lease payments for the one-year renewal period are included in the table above. The leases of individual vehicles are renewed annually.

Employee benefit special purpose entity

We had liabilities of R2,420 million, R2,289 million and R2,154 million in the years ended March 31, 2004, 2003 and 2002, respectively, in respect of post-retirement medical aid obligations for current and retired employees. We set up a special purpose entity in the 2002 financial year for the purpose of funding these post-retirement obligations. This special purpose entity is purely used as a financing tool as we still retain our obligation to provide post-retirement medical aid benefits to retired employees. As a result, it does not meet the definition of a plan asset in terms of IAS19 – Employee Benefits. Our interest in the special purpose entity is by way of equity, and this entity is fully consolidated in the Telkom Group's financial statements. The cumulative value of the funds in this special purpose entity was R1,370 million, R938 million and R560 million as of March 31, 2004, 2003 and 2002, respectively.

Off-balance sheet transactions

We did not have any off-balance sheet transactions during the year ended March 31, 2004.

Funding sources

To date, we have financed our operations primarily from cash flows from operations and by borrowings in the South African and international capital markets. Access to international capital markets and its associated cost of funding depends in part on our credit ratings. We maintain an active dialog with the principal credit rating agencies who review our ratings periodically. Standard & Poor's International Ratings, LLC, a division of McGraw-Hill Companies Inc., and Moody's Investors Services Inc, have rated our foreign debt BBB- and Baa1, respectively. We have not solicited a rating on our local Rand denominated debt due to our long standing relationships with Rand denominated investors. As of March 31, 2004, 73.4% of our debt was local debt, compared to 77.3% as of March 31, 2003 and 77.8% as of March 31, 2002. Our Rand denominated debt bears interest at rates ranging from 10 basis points to 70 basis points above treasuries and the effective interest rate for the year ended March 31, 2004 was 15.1%. Although 86.9% of our debt was fixed rate debt as of March 31, 2004, a significant portion of our debt becomes due in the next 18 months, allowing us to refinance our debt structure.

In July 2004, Moody's upgraded our investment credit rating two notches, from Baa3 to Baa1. We are committed to maintain our investment grade rating with S&P and Moody's.

The following table sets forth our consolidated indebtedness including finance leases as of March 31, 2004.

In millions	Interest payment dates	Interest rate (%)	Outstanding as of March 31, 2004 ZAR
TELKOM			
Bonds			
10% statutorily guaranteed local bond due not later than March 31, 2008 (TK01)[(1), (2), (3)]	Mar 31, Sept 30	10	3,812
13% unsecured local bond due May 31, 2004 (TL08)[(1), (4)]	May 31, Nov 30	13	2,286
10.75% unsecured local bond due September 30, 2003 (TL03)[(1), (5)]	Mar 31, Sept 30		
10.5% unsecured local bond due October 31, 2006 (TL06)[(1), (6)]	Apr 30, Oct 31	10.5	1,440
6% unsecured local bond due February 24, 2020 (TL20)[(7)]	Feb 22	6	1,155
Zero coupon unsecured loan stock due September 30, 2010 (PP02)[(8)]	–	–	174
Zero coupon unsecured loan stock due June 15, 2010 (PP03)[(9)]	–	–	545
7.125% unsecured Euro bond due April 12, 2005[(10)]	April 12	7.125	3,894
Finance leases	n/a	13.44 – 15.28	754
Repurchase agreements	n/a	n/a	27
Commercial paper	Various	Various	1,542
Zero coupon unsecured commercial paper bills with a maturity not later than April 4, 2005. The average discount rate on these commercial paper bills is 9.95% per annum.			
Bank facilities			
R111.5 million unsecured overdraft facility with ABSA Bank Limited, repayable on demand	–	Prime rate	35
R485 million unsecured overdraft facility with The Standard Bank of South Africa Limited, repayable on demand	–	Prime rate	Not utilised
R150 million unsecured overdraft facility with FirstRand Bank Limited, repayable on demand	–	Mutually agreed	Not utilised
R150 million unsecured overdraft facility with Commerzbank AG, repayable on demand	–	Prime rate	Not utilised
$35 million unsecured short-term loan facility with Credit Agricole Indosuez, various repayment dates	–	Mutually agreed	Not utilised
Various bank loans[(3)]	Various	Various	94
Bank overdraft and other short-term debt	–	–	–
Total Telkom			15,758
VODACOM[(11)]			
$10 million shareholders loan with Planetel Communications Limited[(12)]	–	LIBOR + 5%	18
$8.4 million shareholders loan with Caspian Construction Company Limited[(12)]	–	LIBOR + 5%	21
$27.3 Euro 11.5 and TSH 15,356 million project finance for Vodacom Tanzania Limited[(13)]	–	4.9 – 11.6	174
Various finance leases[(14)]	–	12.1 – 16.9	443
$35.4 million and Euro 11.5 million revolving credit facility of Vodacom Congo (RDC) s.p.r.l.	–	LIBOR + 1.5% and EURIBOR + 1.5%	156
Euro 38.8 million Vodacom Congo (RDC) s.p.r.l. extended credit facility	–	EURIBOR + 1.5% EURIBOR + 1.75%	155
$8.8 million loan to Vodacom Group, repayable on July 1, 2003	–	LIBOR + 1.5%	–
$18.9 million aggregate liquidation amount of preference shares issued by Vodacom Congo (RDC) s.p.r.l.[(15)]	–	4%	60
Various other short-term loans	Various	Various	4
Bank overdrafts and other short-term debt	–	–	387
Total Vodacom[(11)]	–	–	1,418
TOTAL	–	–	17,176

(1) Listed on the Bond Exchange of South Africa.
(2) Open ended bond issue, and number of bonds issued varies from time to time. As of March 31, 2004, R4,609 million of these bonds were in issue.
(3) R3,906 million of Telkom's indebtedness outstanding as of March 31, 2004 was guaranteed by the Government of the Republic of South Africa.
(4) 2,000 of these bonds were issued on November 30, 1998 at a yield to maturity of 17.3% and a further 1,500 of these bonds were issued on July 29, 1999 at an interest rate of 15.52%. R1,201 million aggregate principal amount in nominal terms of these bonds were repurchased during the current financial year.
(5) The TL03 bond was repaid during the year.
(6) 1,500 of these bonds were issued on October 31, 2001 at a yield to maturity of 10.87%. R46 million aggregate principal amount of these bonds are held by the Company as an investment against the post-retirement medical liability.
(7) 2,500 of these bonds were issued on February 22, 2000 at a yield to maturity of 15.00%.
(8) Issued on February 25, 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.
(9) Issued on June 15, 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.
(10) Listed on the London Stock Exchange. An aggregate principal amount of Euro 500 million was issued on April 12, 2000.
(11) Represents Telkom's 50% share of Vodacom's indebtedness.
(12) Repayable on approval of at least 60% of the shareholders of Vodacom Tanzania Limited.
(13) Payable on agreement of all shareholders.
(14) Secured by land and buildings.
(15) The preference shares are redeemable, but only after the first three years from date of issuance and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.

Nominal amount outstanding as of March 31, 2004 ZAR	Maturing year ended March 31, 2005 ZAR	2006 ZAR	2007 ZAR	2008 ZAR	2009 ZAR	After 2009 ZAR
4,609	–	–	–	4,609	–	–
2,299	2,299	–	–	–	–	–
1,455	–	–	1,455	–	–	–
2,500	–	–	–	–	–	2,500
430	–	–	–	–	–	430
1,350	–	–	–	–	–	1,350
3,894	–	3,894	–	–	–	–
754	–	–	–	–	–	754
27	27	–	–	–	–	–
1,708	1,446	262	–	–	–	–
35	35	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
Not utilised	–	–	–	–	–	–
94	3	3	3	–	–	85
–	–	–	–	–	–	–
19,155	3,810	4,159	1,458	4,609	–	5,119
18	–	–	–	–	18	–
21	–	–	–	–	21	–
174	33	42	55	44	–	–
443	14	26	40	57	96	210
156	156	–	–	–	–	–
155	155	–	–	–	–	–
–	–	–	–	–	–	–
60	60	–	–	–	–	–
4	4	–	–	–	–	–
387	387	–	–	–	–	–
1,418	809	68	95	101	135	210
20,573	4,619	4,227	1,553	4,710	135	5,329

We expect to repay the indebtedness and other obligations in the above table with cash flows from operations and/or new capital raised in the markets. None of the outstanding indebtedness in the above table is convertible into other securities and, being debt instruments, were not offered or issued to our existing shareholders. The bonds in the above table were issued to, and are currently held by, a number of third parties pursuant to public offers and private placements undertaken by us. Telkom's special purpose entity established to fund post-retirement obligations indirectly held R46 million in nominal value of Telkom's 10.5% unsecured local bond due October 31, 2006 (TL06) and 260,699 of Telkom's ordinary shares as of March 31, 2004.

The funds raised through the issuances of the above indebtedness were used for the extension and modernisation of our communications networks, the provision of additional communications services and for general working capital purposes.

The debt instruments in the above table do not contain any restrictive covenants except a number of the instruments contain provisions limiting our ability to create liens. Some of our debt contains cross-default provisions. In addition, our R2.5 billion 6% local bonds due February 24, 2020 contain financial maintenance covenants requiring the Telkom Group to maintain the following ratios: EBITDA to net interest expense ratio of no less than 3.5:1 in the 2003 financial year, increasing to 4.0:1 in the 2004 financial year and 5.0:1 thereafter; and net interest-bearing debt to EBITDA ratio of no greater than 2.0:1.

The above ratios are calculated semi-annually based on accounting policies in use at the time the indebtedness was incurred. Because the above ratios are calculated based on accounting policies in use at the time the indebtedness was incurred, EBITDA for purposes of the ratios is not calculated in the same manner as it is calculated elsewhere in this document. We were in compliance with the above ratios during the year ended March 31, 2004.

All debt incurred by Telkom prior to 1991 is guaranteed by the Government of the Republic of South Africa pursuant to section 35 of the South African Exchequer Act, 66 of 1975. The Government of the Republic of South Africa does not guarantee debt incurred thereafter or Vodacom's debt. As of March 31, 2004, R3.9 billion of our total debt of R17.2 billion was guaranteed by the Government of the Republic of South Africa.

The only material loan made by Telkom or any of its subsidiaries as of March 31, 2004 is the advance of R249 million to Rossal No. 65, which is not reflected in the table above and is unsecured. This advance was our only material inter-company financing arrangement as of March 31, 2004. No loans have been furnished by Telkom or any of its subsidiaries for the benefit of any director or any member of our senior management team as of March 31, 2004.

Telkom's policy is to hedge its exposure to foreign exchange rate fluctuations. Interest rate risk is converted to Rands and managed per our policy and control manual which stipulates guidelines on exposure to fixed and floating rate debt. Telkom's philosophy is to target a fixed/floating debt ratio of at least 65% fixed, adjusted to market conditions considering the interest rates at that time. If interest rates are low, Telkom will establish a higher than 65% fixed/floating debt ratio and when interest rates are high, Telkom seeks to establish the ratio closer to a 65% fixed/floating debt ratio.

Definitions

ADSL
Asymmetrical Digital Subscriber (ADSL) is a broadband access standard which uses existing copper lines to offer high-speed digital connections over the local loop. ADSL transmits data asymmetrically, meaning that the bandwidth usage is much higher in one direction than the other. ADSL provides greater bandwidth from the exchange to the customer (i.e. downloading) than from the customer to the exchange (i.e. sending).

ARPU
Vodacom's average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks.

CAGR
Compound Annual Growth Rate

EBITDA
EBITDA represents net profit before minority interests, taxation, finance charges, investment income and depreciation, amortisation, impairment and write-offs.

Fixed access lines
Fixed access lines are comprised of public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, public and private payphones and internal lines in service.

Fixed-line penetration
Fixed-line penetration or teledensity is based on the total number of telephone lines in service at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid year in the periods indicated as published by Statistics South Africa, a South African governmental department.

Fixed-line traffic
Fixed-line traffic, other than international outgoing mobile traffic and international interconnection traffic, is calculated by dividing traffic operating revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the actual traffic registered through the respective exchanges and reflected in international interconnection invoices.

Fixed-lines per employee
Fixed-lines per employee is calculated on the basis of fixed access lines in service at period end divided by the number of Telkom employees at period end.

HDI
Historically disadvantaged individual or company

Mobile churn
Vodacom's churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period.

Mobile customers
Vodacom's customer totals are based on the number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the period indicated.

Mobile minutes of use
Vodacom's average monthly minutes of use per customer, or average MOU, is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes

Mobile penetration
Vodacom calculates penetration, or teledensity, based on the total number of customers at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid year in the periods indicated as published by Statistics South Africa, a South African governmental department.

Mobile traffic
Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls.

Net debt
Net debt is defined as total interest-bearing debt, net of bank and cash and other financial assets.

Operating free cash flow
Operating free cash flow is defined as cash flow from operating activities, after interest and taxation, before dividends paid, less cash flow from investing activities.

Return on assets
After effective tax operating return on assets is defined as operating profit after taxation before interest on average total assets (excluding financial assets), excluding non-interest-bearing liabilities.

Total interest-bearing debt
Total interest-bearing debt is defined as short and long-term interest-bearing debt, including credit facilities, finance leases and other financial liabilities.

Content to the annual financial statements

For the year ended March 31, 2004

Consolidated

Company

This report is available on our website at http://www.telkom.co.za/ir

Directors' responsibility statement

The directors are responsible for the preparation of the annual financial statements of the Company and Group. The directors are also responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets.
In presenting the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice and International Financial Reporting Standards with appropriate reconciliations to accounting principles generally accepted in the United States of America have been followed and applicable accounting policies have been used incorporating prudent judgements and estimates.

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

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner.

The internal controls include a risk-based system of internal auditing and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Group's policies and procedures.

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

The directors are of the opinion, based on the information and explanations given by management and internal audit, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA Limited continues to adopt the going-concern basis in preparing the annual financial statements.

Against this background, the directors of the Company accept responsibility for the annual financial statements, which were approved by the Board of Directors on June 4, 2004 and are signed on their behalf by:

Nomazizi Mtshotshisa
Chairman of the Board

Pretoria
June 4, 2004

Sizwe Nxasana
Chief Executive Officer

Pretoria
June 4, 2004

Company Secretary's certificate

Declaration by the Company Secretary in terms of section 268G(d) of the Companies Act:

The Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, and all such returns are true, correct and up to date.

VV Mashale
Company Secretary

Pretoria
June 4, 2004

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Report of the joint independent auditors

To the Board of Directors and shareholders of Telkom SA Limited

We have audited the Company and the Group annual financial statements of Telkom SA Limited set out on pages 192 to 230 and 108 to 174 Note 46 respectively for the year ended March 31, 2004. These financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope of the audit

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining on a test basis, evidence supporting the amounts and disclosures in the Company and the Group annual financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and the Group at March 31, 2004 and the results of their operations, and cash flows for the year then ended in accordance with International Financial Reporting Standards, South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Ernst & Young KPMG Inc.

Ernst & Young
Registered Accountants
and Auditors
Chartered Accountants (SA)

Pretoria
June 4, 2004

KPMG Inc.
Registered Accountants
and Auditors
Chartered Accountants (SA)

Pretoria
June 4, 2004

ERNST & YOUNG

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Report of the independent auditors

To the Board of Directors and shareholders of Telkom SA Limited

We have audited the accompanying consolidated balance sheets of Telkom SA Limited and its subsidiaries as of March 31, 2004, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended set out on pages 110 to 190. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Vodacom Group (Proprietary) Limited, a 50% joint venture included on a proportional consolidation basis, which statements reflect total assets constituting 19% in March 2004, 16% in 2003 and 14% in 2002, and total revenues constituting 29% in March 2004, 26% in 2003 and 24% in 2002 of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Vodacom Group (Proprietary) Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telkom SA Limited and its subsidiaries at March 31, 2004, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards, which differ in certain respects from U.S. generally accepted accounting principles (see Note 47 to the consolidated financial statements).

Ernst & Young

Ernst & Young
Registered Accountants and Auditors
Chartered Accountants (SA)

Pretoria
June 4, 2004

Directors' report

Telkom's directors have pleasure in submitting their report for the year ended March 31, 2004.

Nature of business

Telkom SA Limited ("the Company"), incorporated in South Africa, is an integrated communications group with fixed-line and mobile services in South Africa and other African countries. Telkom is the incumbent fixed-line operator in South Africa and held the exclusive licence to provide public switched telecommunication services until May 7, 2002. Telkom is also the leading provider of mobile services through its 50% shareholding in the Vodacom Group (Proprietary) Limited.

Registration details

Telkom SA Limited is a listed company on the JSE Securities Exchange South Africa and the New York Stock Exchange. The Company's registration number is 1991/005476/06. The registered office is Telkom Towers North, 152 Proes Street, Pretoria, 0002.

Financial performance

Details of the financial performance of the Company, the Group and the business segments are contained in the Company and the Group consolidated annual financial statements set out on pages 192 to 230 and 110 to 190 respectively.

Share capital

Except for the effect of the special resolutions described below, there was no change to the authorised and issued share capital of the Company and the Group during the year ended March 31, 2004.

Details of the Group's share capital are set out in Note 20 of the consolidated annual financial statements, while details of the Company are set out in Note 18 of the Company's annual financial statements.

Purchase of shares by a subsidiary

Through a wholly owned subsidiary, Telkom purchased 3,185,736 of Telkom shares on the open market of the JSE Securities Exchange during the year for a total consideration of R238 million. This is in accordance with the approval given at the Annual General Meeting of the Company's shareholders held on January 27, 2004.

Borrowing powers

In terms of the Articles of Association, the Company has unlimited borrowing powers.

Capital expenditure and commitments

Details of the Company's capital expenditure on property, plant and equipment as well as intangibles are set out in Notes 9 and 10 of the Company's annual financial statements, while details of the Company's capital commitments are set out in Note 30.

Details of the Group's capital expenditure on property, plant and equipment as well as intangibles are set out in Notes 10 and 12 of the consolidated annual financial statements, while details of the Group's capital commitments are set out in Note 37.

Subsidiaries, joint ventures and indebtedness

Details of significant subsidiaries, joint ventures and their indebtedness are set out in Notes 43 and 44 of the consolidated annual financial statements.

Dividends and dividend policy

	Year ended March 31,	
Cents per share	2003	**2004**
Special, paid on December 29, 2003 to shareholders registered on December 11, 2003	–	**90.0**
Final, payable on July 9, 2004 to shareholders registered on June 25, 2004	–	**110.0**
Total dividends in respect of the financial year ended March 31	–	**200.0**

It is the Board's intention to declare only annual dividends for future financial years. The objective of the Board is to progressively increase the dividend payments but the dividend pattern will not strictly follow the earnings pattern. The level of dividend will be based on a number of factors, including the assessment of financial results, the Group's debt level, interest cover and future expectations, including internal cash flows.

Events subsequent to balance sheet date

Events subsequent to the balance sheet date are set out in Note 45 of the consolidated annual financial statements and Note 34 of the Company's annual financial statement.

Directorate

The following are details of changes in the composition of the Board of Directors from the beginning of the accounting period to the date of this report.

Appointments

Alternative directors

BP Manning*
October 24, 2003

Resignations

Alternative directors

AJ Lewis*
September 17, 2003

* American

Directors' report

The following served as directors of the Company at its financial year-end:

Executive

SE Nxasana (Chief Executive Officer)
SM McKenzie* (Chief Operating Officer)
(Alternate BP Manning*)
CK Tan# (Chief Strategic Officer)

Non-executive

NE Mtshotshisa (Chairman)
Tan Sri Dato' Ir. Md Radzi Mansor#
(Alternate Dato' Md Khir Abdul Rahman#)
JP Klug* (Alternate JB Gibson*)
CL Valkin
RP Menell
MP Moyo
TA Sekano
TG Vilakazi

* American
\# Malaysian

Company Secretary

VV Mashale is the Company Secretary.

Company Secretary's business address and registered office:
Telkom Towers North
152 Proes Street
Pretoria
0002
South Africa

Postal address
Private Bag X881
Pretoria
0001
South Africa

Directors' interest and emoluments

Details of directors' interest and emoluments are set out in Note 40 of the consolidated annual financial statements.

Annual General Meeting

The 12th Annual General Meeting of Telkom shareholders will be held at 12:00, Sandton Convention Centre, Sandton, on Friday, September 17, 2004. The notice and a form of proxy for use by registered shareholders and dematerialised shareholders with own name registration who are able to attend the Annual General Meeting are included at the back of this annual report.

Special resolutions

The following special resolutions were passed at the 11th Annual General Meeting held on January 27, 2004:

- The Company's Articles of Association be amended to allow for directors to meet, adjourn and otherwise regulate their meetings as they think fit, provided however, that the Board shall meet at least once a quarter, and any director shall be entitled to convene or direct the Secretary to convene a meeting of the directors. The reason for and effect of this resolution was to amend the Articles of Association of the Company to reduce the minimum number of Board meetings per year from six to four.
- That the directors be given general authority for the Company, or a subsidiary of the Company, to acquire ordinary shares in the issued share capital of the Company.

Consolidated income statement

for the three years ended March 31, 2004

	Notes	2002 Rm	2003 Rm	**2004 Rm**
Operating revenue	3	34,087	37,507	**40,795**
Other income	4	143	233	**98**
Operating expenses		30,039	31,226	**31,805**
Employee expenses	5.1	7,166	7,208	**7,408**
Payments to other operators	5.2	5,652	6,092	**5,985**
Selling, general and administrative expenses	5.3	7,956	7,682	**7,971**
Services rendered	5.4	2,273	2,622	**2,269**
Operating leases	5.5	1,139	1,124	**923**
Depreciation, amortisation, impairment and write-offs	5.6	5,853	6,498	**7,249**
Operating profit		4,191	6,514	**9,088**
Investment income	6	512	424	**479**
Profit before finance charges		4,703	6,938	**9,567**
Finance charges	7	2,550	4,154	**3,264**
Interest		3,185	2,869	**2,488**
Foreign exchange and fair value effect		(635)	1,285	**776**
Profit before taxation		2,153	2,784	**6,303**
Taxation	8	873	1,049	**1,711**
Profit after taxation		1,280	1,735	**4,592**
Minority interests	22	59	105	**69**
Net profit for the year		1,221	1,630	**4,523**
Basic and diluted earnings per share (cents)	9	219.2	292.6	**812.0**
Headline earnings per share (cents)	9	299.3	314.0	**863.6**
Dividend per share (cents)	9	–	–	**90.0**

Consolidated balance sheet

at March 31, 2004

	Notes	2002 Rm	2003 Rm	**2004 Rm**
Assets				
Non-current assets		44,319	43,308	**41,923**
Property, plant and equipment	10	41,918	41,046	**39,024**
Investment properties	11	–	–	**32**
Intangible assets	12	530	364	**580**
Investments	13	859	1,161	**1,567**
Deferred taxation	14	1,012	737	**720**
Current assets		10,997	9,921	**11,061**
Other financial assets	15	2,819	1,771	**1,089**
Income tax receivable	16	1,081	276	**–**
Short-term investments	13	29	26	**168**
Inventories	17	624	621	**520**
Trade and other receivables	18	5,720	6,110	**6,066**
Cash and cash equivalents	19	724	1,117	**3,218**
Total assets		55,316	53,229	**52,984**
Equity and liabilities				
Capital and reserves		16,832	18,348	**22,058**
Share capital and premium	20	8,293	8,293	**8,293**
Treasury shares	20	–	–	**(238)**
Preliminary listing costs	20	(44)	–	**–**
Non-distributable reserves	21	134	(11)	**104**
Retained earnings	23	8,449	10,066	**13,899**
Minority interests	22	133	194	**200**
Non-current liabilities		25,586	20,490	**16,283**
Interest-bearing debt	24	22,533	17,453	**12,703**
Deferred taxation	14	463	497	**1,142**
Provisions	26	2,590	2,540	**2,438**
Current liabilities		12,765	14,197	**14,443**
Credit facilities utilised	19	822	280	**422**
Trade and other payables	27	6,663	5,229	**6,007**
Shareholders for dividend		–	–	**7**
Deferred income	28	958	1,030	**1,345**
Current portion of interest-bearing debt	24	2,154	4,759	**4,051**
Current portion of provisions	26	1,975	2,155	**1,658**
Income tax payable		193	177	**460**
Other financial liabilities	15	–	567	**493**
Total equity and liabilities		55,316	53,229	**52,984**

Consolidated statement of changes in equity

for the three years ended March 31, 2004

	Share capital Rm	Share premium Rm	Treasury shares Rm	Preliminary listing costs Rm	Non-distributable reserves Rm	Retained earnings Rm	**Total Rm**
Balance at April 1, 2001	5,570	2,723				6,679	**14,972**
Adoption of IAS39 (Note 23)					45	584	**629**
Restated balance	5,570	2,723			45	7,263	**15,601**
Net profit for the year						1,221	**1,221**
Transfer to non-distributable reserves (Note 21)					35	(35)	
Fair value adjustment on investments (Note 21)					5		**5**
Foreign currency translation reserve (net of tax of (R10 million)) (Note 21)					49		**49**
Preliminary listing costs (Note 20)				(44)			**(44)**
Balance at April 1, 2002	5,570	2,723		(44)	134	8,449	**16,832**
Net profit for the year						1,630	**1,630**
Transfer to non-distributable reserves (Note 21)					13	(13)	
Fair value adjustment on investments (Note 21)					(37)		**(37)**
Foreign currency translation reserve (net of tax of R11 million) (Note 21)					(121)		**(121)**
Preliminary listing costs expensed (Note 20)				44			**44**
Balance at April 1, 2003	**5,570**	**2,723**		**–**	**(11)**	**10,066**	**18,348**
Net profit for the year						**4,523**	**4,523**
Dividend declared						**(501)**	**(501)**
Transfer to non-distributable reserves (Note 21)					**189**	**(189)**	
Fair value adjustment on investments (Note 21)					**9**		**9**
Foreign currency translation reserve (net of tax of R5 million) (Note 21)					**(83)**		**(83)**
Treasury shares (Note 20)			**(238)**				**(238)**
Balance at March 31, 2004	**5,570**	**2,723**	**(238)**	**–**	**104**	**13,899**	**22,058**

Consolidated cash flow statement

for the three years ended March 31, 2004

	Notes	2002 Rm	2003 Rm	**2004 Rm**
Operating activities		8,171	9,748	**13,884**
Cash receipts from customers		34,053	37,494	**40,520**
Cash paid to suppliers and employees		(22,470)	(25,431)	**(24,750)**
Cash generated from operations	30	11,583	12,063	**15,770**
Interest received		528	384	**479**
Finance charges paid	31	(3,026)	(2,776)	**(1,255)**
Dividend paid	33	–	(25)	**(548)**
Taxation (paid)/refunded	32	(914)	102	**(562)**
Investing activities		(9,250)	(5,731)	**(5,423)**
Proceeds on disposal of property, plant and equipment		139	21	**52**
Proceeds on disposal of investment		–	172	**29**
Proceeds on disposal of subsidiaries and joint ventures	34	13	16	**–**
Additions to property, plant and equipment		(9,004)	(5,671)	**(5,187)**
Intangible assets acquired		(97)	–	**(61)**
Additions to other investments		(119)	(269)	**(331)**
Acquisition of subsidiaries	35	(182)	–	**75**
Financing activities		66	(3,026)	**(6,481)**
Listing costs		(44)	(154)	**–**
Purchase of treasury shares		–	–	**(102)**
Loans raised		14,286	9,117	**1,732**
Loans repaid		(15,041)	(11,526)	**(7,428)**
Finance lease capital repaid		–	–	**(5)**
Finance lease capital raised		–	5	**–**
Decrease/(increase) in net financial assets		865	(468)	**(678)**
Net (decrease)/increase in cash and cash equivalents		(1,013)	991	**1,980**
Net cash and cash equivalents at beginning of the year		867	(98)	**837**
Effect of foreign exchange rate differences		48	(56)	**(21)**
Net cash and cash equivalents at end of the year	19	(98)	837	**2,796**

Notes to the consolidated annual financial statements

for the three years ended March 31, 2004

1. Overview of business activities

Telkom SA Limited ("Telkom") is a limited liability company incorporated in the Republic of South Africa ("South Africa"). The Company, its subsidiaries and joint ventures ("the Group") is the leading provider of fixed-line voice and data communications services in South Africa and mobile communications services through Vodacom Group (Proprietary) Limited ("Vodacom") in South Africa and certain other African countries. The Group's services and products include:

- fixed-line telephony, including domestic, pre-paid, international, public payphone and carrier services, as well as enhanced services and customer premises equipment sales and directory services;
- mobile telephony through Vodacom;
- data communications using fibre connections, including data transmission, data networking and leased lines and related services; and
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services.

2. Significant accounting policies

Basis of preparation

The financial statements comply with International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board, South African Statements of Generally Accepted Accounting Practice ("SA GAAP"), and the Companies Act in South Africa.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments which are measured at fair value, in conformity with IFRS and SA GAAP. IFRS were applied in full for the first time, in the March 31, 2002 financial statements, as the primary accounting basis. Where adjustments arising from this change could be reasonably determined, opening retained earnings for the earliest period presented were accordingly adjusted, with the exception of the adjustment arising on the adoption of IAS39, which was accounted for on April 1, 2001.

Details of the Group's significant accounting policies are set out below, and are consistent with those applied in the previous year.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results may differ from those estimates.

Basis of consolidation

The consolidated financial statements include those of Telkom SA Limited, its subsidiaries and joint ventures. Subsidiaries are those entities over whose financial and operating policies the Group has the ability to exercise control, so as to obtain benefits from their activities. Joint ventures are those enterprises over which the Group exercises joint control in terms of a contractual agreement. Joint ventures are accounted for using the proportionate consolidation method on a line-by-line basis. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the enterprises. Business combinations are accounted for using the purchase method of accounting. On acquisition of a subsidiary or joint venture, any excess of the purchase price over the fair value of the Group's net assets is recognised as goodwill on acquisition. Minority interests are calculated on the fair value of assets and liabilities.

Subsidiaries and joint ventures where control is intended to be temporary, as they are acquired and held exclusively with a view to disposal in the near future, or the subsidiary or joint venture is operating under severe long-term restrictions, which significantly impairs its ability to transfer funds, are not consolidated, or proportionately consolidated. Such subsidiaries and joint ventures are accounted for as available for sale investments in terms of the accounting policy for financial instruments.

Property, plant and equipment

Freehold land is stated at cost and is not depreciated.

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged from the date of commissioning on a straight-line basis over the estimated useful life. Assets under construction represents freehold land and buildings, software, network and support equipment and includes all direct expenditure but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

The expected useful lives assigned to groups of property, plant and equipment are:

	Years
Freehold buildings	15 to 50
Leasehold buildings	10 to 25
Network equipment	
Cables	10 to 28
Switching equipment	5 to 15
Transmission equipment	15
Other	2 to 20
Support equipment	5 to 10
Furniture and office equipment	2 to 10
Data processing equipment and software	3 to 5
Investment properties	15 to 50
Other	3 to 10

2. Significant accounting policies (continued)

Impairment of assets

The Group regularly reviews its assets, other than financial instruments, for any indication of impairment. When indicators including changes in technology, market, economic, legal and operating environments occur and result in changes of the assets' estimated remaining useful life, an impairment test is performed.

The recoverable amount of assets is measured using the higher of the present value of projected cash flows covering the remaining useful lives of the assets, and the net realisable value. Impairment losses are recognised when the assets' carrying value exceeds its estimated recoverable amount. The recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss is reversed through the income statement if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated so as to write off the cost of the investment property on a straight-line basis, over its estimated useful life to its estimated residual value. Depreciation commences when the property is ready for its intended use. The estimated useful lives of depreciable properties are disclosed in the policy on property, plant and equipment.

Intangible assets

Intangible assets, including goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses. The carrying amount of goodwill is reviewed annually and written down for impairment where considered necessary. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful life.

The expected useful lives assigned to intangible assets are:

	Years
Licences	5 to 20
Goodwill	3 to 20
Trademarks, copyrights and other	3 to 10

For goodwill, a recognised impairment loss is not reversed, unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and the increase relates clearly to the reversal of the effect of that event.

Asset retirement obligations

Asset retirement obligations are provided for, if estimatable, at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges.

Repairs and maintenance

The Group expenses all costs associated with the repair and maintenance of its telecommunications network, unless these add to the value of the assets or prolong the useful lives.

Borrowing costs

Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Group borrowings was utilised. Other borrowing costs are expensed as incurred.

Inventories

Inventories are stated at the lower of cost, determined on a weighted average basis, or estimated net realisable value.

Financial instruments

Recognition

All financial instruments are initially recognised at cost, including transaction costs, when the Group becomes a party to their contractual arrangements. Regular way transactions are accounted for on settlement date.

Subsequent to initial recognition, financial assets classified as "held-for-trading" and "available-for-sale" are measured at fair value and those classified as "loans and receivables originated by the enterprise" and "held-to-maturity" at amortised cost. Interest-bearing borrowings and other financial liabilities are measured at amortised cost where a maturity date exists, or at cost if no maturity date exists. Liabilities held for trading and derivatives are measured at fair value with gains and losses included in net profit or loss for the period. Amortised cost is calculated on the effective interest rate method. Gains and losses arising on changes in fair value of these instruments are recognised in net profit or loss for the period, except for those classified as "available-for-sale" which are taken directly to equity. Fair value adjustments on unlisted investments are made if the value can be measured reliably.

The estimated fair values of derivatives are determined based on the relevant market information. These estimates are

2. Significant accounting policies (continued)

calculated with reference to the market rates using industry standard valuation techniques.

Listed investments are subsequently measured at fair value, which is calculated by reference to the quoted selling price at the close of business on the balance sheet date.

Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the Company loses the contractual rights or extinguishes the obligation.

On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in net profit or loss for the period. For "available-for-sale" assets, the fair value adjustment relating to prior revaluations of assets is transferred from equity and recognised in net profit or loss for the period.

Trade and other receivables

Short-term trade receivables are recognised and carried at original invoice amount, which is the undiscounted fair value of the consideration receivable. Long-term trade receivables are initially recognised at fair value and subsequently measured at amortised cost.

Bills of exchange and promissory notes

Bills of exchange and promissory notes held to maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are carried at the cost of the consideration given. Bills of exchange held as trading instruments are carried at mark-to-market rates.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call and term deposits with maturity of less than three months.

Derivative financial instruments

All derivative financial instruments are measured at fair value subsequent to initial recognition with gains and losses taken to finance charges.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are determined as the difference in the present value of the future net interest cash flows. The fair value of currency swaps is determined with reference to the present value of expected future cash flows. The Group's derivative transactions, while providing effective economic hedges under the risk management policies, do not qualify for hedge accounting under the specific rules of IAS39. Upon initial application of IAS39, on April 1, 2001, the Group recorded the fair value of the existing forward contracts on the balance sheet and the corresponding gain was recognised as an adjustment to the opening balance of retained earnings.

Prior to April 1, 2001, the Group entered into foreign exchange forward contracts to hedge the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. Up to March 31, 2001, gains and losses due to changes in spot rates on forward contracts designated as hedges of identifiable foreign currency firm commitments were deferred and included in the measurement of the related foreign currency transactions. Gains and losses due to changes in spot rates on forward contracts designated as hedges of existing assets and liabilities were recorded to the income statement to offset the currency gain or loss from the instrument being hedged. The portion of the premium paid over or received relating to the firm commitment period was included in the measurement of the basis of the related foreign currency transaction when recorded. Any remaining premium was amortised over the life of the foreign exchange contract to the income statement. Foreign exchange contract costs incurred in covering currency loans are expensed over the period of the contract and are included in finance costs.

Prior to April 1, 2001, the Group entered into interest rate swap agreements in order to manage interest rate exposure. The net interest paid or received on the swaps was recognised as interest expense.

Prior to April 1, 2001, the Group entered into cross-currency interest rate swap agreements in order to manage exposures to interest rates and fluctuations in foreign currency exchange rates. The net interest paid or received on the swaps was recognised as an interest expense. Gains and losses due to changes in spot rates on the contracts used for hedging were recorded to the income statement to offset the currency gain or loss from the instrument being hedged.

Repurchase agreements

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

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans originated by the enterprise. Originated loans are recorded at amortised cost.

All associated finance charges are taken to income.

2. Significant accounting policies (continued)

Bridge liquidity transactions

New bonds issued are measured at amortised cost based on the yield to maturity of the new issue.

Bonds are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges.

Bonds issued where Telkom is a buyer and seller of last resort are carried at amortised cost. The Group does not actively trade in bonds.

Foreign currencies

The measurement currency of the Group is the South African Rand ("ZAR").

Transactions denominated in foreign currencies are translated at the rate of exchange at the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are included in finance charges.

Assets and liabilities of foreign entities are translated at the foreign exchange rates ruling at the balance sheet date. Income, expenditure and cash flow items are remeasured at the actual foreign exchange rate or average foreign exchange rates for the period. Exchange differences on consolidation are classified as part of the foreign currency translation reserve, until disposal of the investment. Any fair value adjustments and goodwill arising on the acquisition of a foreign entity are treated as assets and liabilities of the Group and translated at the foreign exchange rates on transaction date.

Impairment of financial assets

At each balance sheet date an assessment is made of whether there are any indicators of impairment of financial assets based on an analysis of historical bad debt and customer credit-worthiness. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised in net profit or loss for the period for the difference between the recoverable amount and the carrying amount.

The recoverable amount of assets carried at amortised cost is calculated as the present value of expected future cash flows discounted at the original effective interest rate of the asset.

Taxation

Current taxation

The charge for current taxation is based on the results for the period and is adjusted for non-taxable income and non-deductible expenditure. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is accounted for using the balance sheet liability method at current rates in respect of temporary differences. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary Taxation on Companies

Secondary Taxation on Companies ("STC") is provided for at a rate of 12.5% on the amount by which dividends declared by the Group exceed dividends received. Deferred tax on unutilised STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for set-off.

Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement medical and telephone rebate liabilities are unfunded.

Defined contribution plans

The Group's funding of the defined contribution plans is charged to the income statement in the same period as the related service is provided.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, medical aid costs, and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, as adjusted for unrecognised actuarial gains and losses, unrecognised past service costs and reduced by the fair value of plan assets. The amount of any surplus recognised is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised gains and losses for each individual plan exceed 10% of the greater of the present value of the Group's obligation or the fair value of plan assets.

2. Significant accounting policies (continued)

These gains or losses are amortised on a straight-line basis over ten years for the medical liability and over the expected average remaining working lives of the employees participating in the other plans.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise, they are recognised on a straight-line basis over the average period the benefits become vested.

Leave benefits

Holiday leave is provided for over the period that the leave accrues and is subject to a cap. Sick leave is provided for on days accrued and is also subject to a cap.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Termination benefits are recognised when it is probable that the expenses will be incurred.

Compensation benefits

Employees of the wholly owned subsidiaries of Vodacom, including executive directors, are eligible for compensation benefits in the form of a Deferred Bonus Incentive Scheme. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. Benefits of eligible employees arising from the entitlements are determined with reference to the present value per entitlement, which is determined annually based on profits as per the audited consolidated annual financial statements of Vodacom Group (Proprietary) Limited.

The fair value of the entitlements is calculated as the difference in the entitlement value at balance sheet date and the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant. Any change in entitlement value is recorded in the income statement based on the present value of the expected future cash outflows and recorded as a liability in the balance sheet. Participating employees are entitled to cash in their entitlements once the right to do so has vested.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period the employees render services, unless the entity uses the services of employees in the construction of an asset and the benefits received meets the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment item.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Revenue

The Group provides fixed-line communication services and mobile communication services, directory services and communication related products. The Group provides such services to business, residential, payphone and mobile customers. Revenue represents the value of fixed consideration that has been received or is receivable.

Revenue for services is stated at amounts invoiced to customers and excludes Value Added Tax.

Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The value of components is determined using verifiable objective evidence. The Group does not provide customers with the right to a refund.

Subscriptions

The Group provides telephone and data communication services under postpaid and prepaid payment arrangements. Revenue includes fees for installation and activation which are recognised as revenue upon activation. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the life of the customer relationship. All other installation and activation costs are expensed as incurred.

Postpaid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Traffic and value-added services

Prepaid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period or whichever comes first. The terms and conditions of certain prepaid products allow the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration. Payphone service revenue is recognised when the service is provided. Community

2. Significant accounting policies (continued)

phone revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. Interconnection revenue for call termination, call transit and network usage are recognised in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided. Revenue related to products and value-added services is recognised upon delivery and acceptance of the product or service.

Contract revenue

These contracts may include a subsidised handset, 24-month service, activation, SIM-card and a user manual. Revenue is recognised as follows:

- the loss on the subsidised handset, which includes the costs of the handset, the SIM-card and manual, is recognised upon activation by the customer;
- activation fee revenue received from the customer is recognised upon activation by the customer;
- monthly access revenue received from the customer is recognised in the period in which the service is delivered;
- airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products, where applicable, allow the carry over of unused minutes and the accumulation to a maximum of five times the monthly allocation. The unused airtime is deferred in full;
- deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in income; and
- any other costs incurred as a result of a new customer, are expensed upon activation as this is treated as a customer acquisition cost.

Prepaid products

Airtime

Upon purchase of an airtime voucher the customer receives the right to make outgoing calls and receive incoming calls. Revenue is recognised as the customer utilises the voucher.

Remaining elements of prepaid packages

When a prepaid package is sold, all the costs, which include the costs of the SIM-card and manual, together with the commission, are treated as a customer acquisition cost. Activation cost up to the amount of revenue, including the revenue from the sale of the starter pack, is deferred and recognised upon activation by the customer. Any activation cost exceeding the revenue received is recognised as a loss upon sale of the starter pack by the Group. If a handset is bundled with a prepaid package, the cost is also treated as a customer acquisition cost.

The residual revenue related to the remaining elements of the prepaid packages is not separable since no objective evidence of fair value exists. The Group currently recognises this residual amount upon activation.

Equipment sales

Revenue from the sales of communication equipment is recognised upon delivery and acceptance by the customer.

Directory services

Revenue is recognised when paper directories are released for distribution, as the significant risks and rewards have been passed.

Other

Dividends from investments are recognised on the date that the Group is entitled to the dividend. Interest is recognised on a time proportion basis taking into account the principal amount outstanding and the effective interest rate.

Incentives

Vodacom pays incentives to service providers and dealers for new activations, retention of existing customers and reaching specified sales targets. These incentives are expensed as incurred.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Incentives are based on sale volume and value. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Distribution incentives paid to service providers and dealers for exclusivity, distribution assets and distribution subsidies are deferred and expensed over the contractual relationship period.

Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease finance costs are charged against income over the term of the lease using the effective interest rate method. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in income over the term of the lease.

Segmental reporting

The Group is managed in two business segments, which forms the primary segment reporting basis: fixed-line and mobile.

Notes to the consolidated annual financial statements

for the three years ended March 31, 2004

2. Significant accounting policies (continued)

The Group's two segments operate mainly in South Africa, but the mobile segment has businesses in certain other African countries. The geographical location of the Group's customers has been identified as the secondary basis of segment reporting. The basis of segment reporting is representative of the Group's internal reporting structure, which is in accordance with IFRS.

The fixed-line business segment provides local telephony, domestic and international long distance services as well as leased lines, data transmission, directory services and internet access.

The mobile business segment provides mobile telephony services as well as the sale of mobile equipment.

Inter-segment sales are accounted for in the same way as sales to third parties at current market prices.

Marketing

Marketing costs are recognised as an expense as incurred.

Share buy backs

Shares repurchased by Telkom are cancelled. Shares held by subsidiaries are treated as treasury shares and are presented as a reduction of equity. Gains or losses on disposals of treasury shares are accounted for directly in equity.

Comparatives

Certain comparative figures have been reclassified in accordance with current period classifications and presentation. These reclassifications have no effect on prior year net profit. The current period classifications more closely resemble the nature of transactions within the Group's operating structure.

The reclassifications were made in Notes 3 and 5. The principal reclassifications were to reflect certain other benefits as part of salaries and wages (Note 5.1), to show certain payments to other operators net of revenue and to reflect impairments and write-offs as part of the depreciation charge.

Change from	Change to	2002	2003	Reference
Payments to other operators	Operating revenue	110	93	Note 5.2 and 3
Selling, general and administrative expenses	Depreciation, amortisation, impairment and write-offs	445	205	Note 5.3 and 5.6
Operating leases – vehicles	Security and other	78	81	Note 5.5 and 5.4

Restatement

Vodacom restated its balance sheet disclosure for the 2003 and 2002 financial years to reflect its net zero investment in the Vodacom Congo (RDC) s.p.r.l's preference shares at its gross value in investments and interest-bearing debt as the Group does not have a legal right of set-off for these amounts. This restatement does not impact the Group's results or cash flow information for the 2003 and 2002 years.

The following table reflects the value of the different line items prior and subsequent to the restatements:

	2002		2003	
	Rm Previously	Rm Restated	Rm Previously	Rm Restated
Investment (Note 13)	751	859	1,086	1,161
Current portion of interest-bearing debt – foreign debt (Note 24)	2,041	2,154	4,677	4,759

Notes to the consolidated annual financial statements
for the three years ended March 31, 2004

		2002 Rm	2003 Rm	**2004** **Rm**
3.	**Operating revenue**	34,087	37,507	**40,795**
	Fixed-line	27,496	29,106	**30,443**
	Mobile	6,591	8,401	**10,352**
	Fixed-line	27,496	29,106	**30,443**
	Subscriptions, connections and other usage	4,410	4,595	**5,024**
	Traffic	17,168	18,001	**18,313**
	Domestic (local and long distance)	8,670	9,178	**9,680**
	Fixed-to-mobile	7,323	7,539	**7,321**
	International (outgoing)	1,175	1,284	**1,312**
	Interconnection	1,612	1,587	**1,441**
	Data	3,652	4,183	**4,787**
	Directories and other	654	740	**878**
4.	**Other income**	143	233	**98**
	Profit on disposal of investment	–	89	**25**
	Profit on disposal of property, plant and equipment	30	15	**19**
	Sundry	113	129	**54**
5.	**Operating expenses**			
	Operating expenses comprise:			
5.1	Employee expenses	7,166	7,208	**7,408**
	Salaries and wages	5,598	5,306	**5,424**
	Medical aid contributions	379	389	**408**
	Retirement and pension contributions	499	470	**488**
	Post-retirement medical aid	234	262	**272**
	Current service cost	20	20	**24**
	Interest cost	224	225	**249**
	Actuarial gain	(5)	(5)	**–**
	Settlement loss/(gain)	11	–	**(3)**
	Curtailment (gain)/loss	(16)	22	**2**
	Retirement and pension fund deficit	81	40	**44**
	Interest cost	119	86	**44**
	Curtailment gain	(38)	(9)	**–**
	Realisation of fund reserve	–	(37)	**–**
	Sick leave	(15)	34	**(11)**
	Telephone rebates	10	16	**2**
	Current service cost	–	3	**4**
	Interest cost	10	24	**19**
	Actuarial gain	–	(11)	**(21)**
	Other benefits	599	945	**993**
	Restructuring expense	373	244	**302**
	Employee expenses capitalised	(592)	(498)	**(514)**

	2002 Rm	2003 Rm	**2004 Rm**
5. Operating expenses (continued)			
5.1 Employee expenses (continued)			

Curtailment (gain)/loss
The curtailment (gain)/loss resulted from a reduction in the number of participants covered by the retirement and pension funds and the post-retirement medical aid. This, in turn, resulted in a required adjustment to the present value of the obligation.

Settlement loss/(gain)
The settlement loss/(gain) resulted from a transaction between the Group and participants of the post-retirement medical aid. The participants were offered a lump sum in exchange for their right to receive specified post-employment benefits.

Other benefits
Other benefits include transfer costs, annual leave, performance, incentive and service bonuses.

Restructuring expense
The Group recognises the cost of restructuring charges associated with management's plan to reduce the size of its workforce to a comparable level for world-class telecommunication companies.

The total number of employees who left the Company is 1,633 (2003: 2,124, 2002: 2,960). These employees include management, corporate and operating staff. For 312 of these employees, March 31, 2004 was their last working day.

Retirement and pension contributions
For further details refer to Note 47.

Change in comparatives
R751 million (2002: R721 million) has been reclassified from other benefits to salaries and wages, which included motor and housing allowances.

	2002 Rm	2003 Rm	**2004 Rm**
5.2 Payments to other operators	5,652	6,092	**5,985**
5.3 Selling, general and administrative expenses	7,956	7,682	**7,971**
Selling and administrative expenses	5,137	4,891	**5,446**
Maintenance	2,202	2,169	**1,868**
Marketing	617	622	**657**

	2002 Rm	2003 Rm	2004 Rm
5. Operating expenses (continued)			
5.4 Services rendered	2,273	2,622	**2,269**
Facilities and property management	1,241	1,234	**1,164**
Consultancy services – managerial fees	237	427	**239**
Security and other	768	839	**806**
Auditor's remuneration	27	122	**60**
Audit services	15	42	**41**
Company auditors	12	35	**32**
Current year	11	25	**31**
Prior year underprovision	1	10	**1**
Other auditors – current year	3	7	**9**
Audit related services	–	1	**6**
Company auditors	–	–	**4**
Other auditors	–	1	**2**
Tax services – other auditors	1	1	**1**
Other services	11	10	**7**
Company auditors	9	5	**7**
Other auditors	2	5	**–**
Telkom SA Limited IPO related fees	–	68	**5**
Company auditors	–	42	**–**
Current year	–	32	**–**
Prior year underprovision	–	10	**–**
Other auditors	–	26	**5**

Audit related services include the review of system implementations and accounting opinions. Other services consist mainly of assistance received with the requirements of the Sarbanes-Oxley Act.

Change in comparatives

R147 million (2002: R145 million) has been reclassified from consultancy services to facilities and property management.

	2002 Rm	2003 Rm	2004 Rm
5.5 Operating leases	1,139	1,124	**923**
Buildings	316	284	**195**
Transmission and data lines	–	7	**16**
Equipment	59	64	**85**
Vehicles	764	769	**627**

	2002 Rm	2003 Rm	2004 Rm
5. Operating expenses (continued)			
5.6 Depreciation, amortisation, impairment and write-offs	5,853	6,498	**7,249**
Depreciation of property, plant and equipment	5,283	6,146	**6,763**
Freehold buildings	190	271	**275**
Leasehold buildings	22	23	**49**
Network equipment	3,324	3,865	**4,279**
Support equipment	365	499	**550**
Furniture and office equipment	44	49	**47**
Data processing equipment and software	1,262	1,372	**1,490**
Other	76	67	**73**
Depreciation of investment properties	–	–	**2**
Amortisation of intangible assets	125	147	**134**
Goodwill	66	73	**73**
Licences	6	7	**8**
Trademarks, copyrights and other	53	67	**53**
Goodwill impairment	–	16	**–**
Property, plant and equipment impairment and write-offs (Note 10)	445	189	**350**
Impairment	398	–	**149**
Write-offs	47	189	**201**
6. Investment income	512	424	**479**
Interest received	512	416	**469**
Dividends received	–	8	**10**
7. Finance charges	2,550	4,154	**3,264**
Interest	3,185	2,869	**2,488**
Local debt	2,690	2,642	**2,253**
Foreign debt	599	375	**303**
Less: Finance costs capitalised	(104)	(148)	**(68)**
Foreign exchange gains and losses and fair value adjustments	(635)	1,285	**776**
Foreign exchange losses/(gains)	2,401	(761)	**(368)**
Fair value adjustments on derivative instruments	(3,036)	2,046	**1,144**
Capitalisation rate	13.48%	13.56%	**15.14%**

Notes to the consolidated annual financial statements

for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004** **Rm**
8. Taxation	873	1,049	**1,711**
South African normal company taxation	787	678	**953**
Current taxation	581	682	**960**
Underprovision/(overprovision) for prior year	206	(4)	**(7)**
Deferred taxation	48	322	**604**
Temporary differences – normal company taxation	326	300	**866**
Temporary differences – Secondary Taxation on Companies tax credits	–	–	**(199)**
(Overprovision)/underprovision for prior year	(278)	22	**(63)**
Secondary Taxation on Companies	37	47	**151**
Foreign taxation	1	2	**3**
Reconciliation of taxation rate	%	%	**%**
Effective rate	40.5	37.7	**27.2**
South African normal rate of taxation	30.0	30.0	**30.0**
Adjusted for:	10.5	7.7	**(2.8)**
Exempt income	(4.6)	(1.2)	**(3.1)**
Disallowable expenditure	17.0	5.4	**2.7**
Temporary differences in joint venture	(0.4)	–	**–**
Tax losses not utilised	–	–	**0.2**
Utilisation of assessed loss	–	–	**(0.6)**
Secondary Taxation on Companies	1.7	1.7	**2.4**
Secondary Taxation on Companies tax credits	–	–	**(3.2)**
(Overprovision)/underprovision for prior year	(3.2)	0.6	**(1.2)**
Foreign taxation	–	1.2	**–**

The high effective rate for 2002 and 2003 was primarily due to non-deductible losses relating to a supplier dispute and resolution of the section 32 dispute with the South African Revenue Services.

9. Earnings per share

Basic and diluted earnings per share

The calculation of earnings per share is based on net profit for the year (earnings) of R4,523 million (2003: R1,630 million, 2002: R1,221 million) and weighted average number of ordinary shares in issue of 556,994,962 (2003: 557,031,819, 2002: 557,031,819).

Headline earnings per share

The calculation of headline earnings per share is based on headline earnings of R4,810 million (2003: R1,749 million, 2002: R1,667 million) and 556,994,962 (2003: 557,031,819, 2002: 557,031,819) weighted average number of ordinary shares issued.

Notes to the consolidated annual financial statements
for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004 Rm**
9. Earnings per share (continued)			
Reconciliation between earnings and headline earnings:			
Earnings as reported	1,221	1,630	**4,523**
Adjustments:			
Profit on disposal of investment	–	(89)	**(25)**
Profit on sale of property, plant and equipment	(30)	(15)	**(19)**
Property, plant and equipment impairment and write-offs	445	189	**350**
Goodwill amortisation	66	73	**73**
Goodwill impairment	–	16	**–**
Tax and outside shareholder effects	(35)	(55)	**(92)**
Headline earnings	1,667	1,749	**4,810**
Basic and diluted earnings per share (cents)	219.2	292.6	**812.0**
Headline earnings per share (cents)	299.3	314.0	**863.6**
The disclosure of headline earnings is a requirement of the JSE Securities Exchange of South Africa and is not a recognised measure under US GAAP.			
Dividend per share (cents)	–	–	**90.0**

	2002 Cost Rm	2002 Accumulated depreciation Rm	2002 Carrying value Rm	2003 Cost Rm	2003 Accumulated depreciation Rm	2003 Carrying value Rm	**2004 Cost Rm**	**2004 Accumulated depreciation Rm**	**2004 Carrying value Rm**
10. Property, plant and equipment									
Freehold land and buildings	3,548	(829)	2,719	3,821	(1,099)	2,722	**4,154**	**(1,364)**	**2,790**
Leasehold buildings (Note 24)	758	(141)	617	799	(164)	635	**819**	**(203)**	**616**
Network equipment	50,448	(20,032)	30,416	54,369	(23,360)	31,009	**56,108**	**(26,974)**	**29,134**
Support equipment	3,090	(1,634)	1,456	3,785	(2,198)	1,587	**4,032**	**(2,611)**	**1,421**
Furniture and office equipment	392	(167)	225	419	(213)	206	**451**	**(260)**	**191**
Data processing equipment and software	7,217	(3,677)	3,540	7,770	(4,550)	3,220	**9,007**	**(5,637)**	**3,370**
Under construction	2,700	–	2,700	1,464	–	1,464	**1,333**	**–**	**1,333**
Other	496	(251)	245	480	(277)	203	**510**	**(341)**	**169**
	68,649	(26,731)	41,918	72,907	(31,861)	41,046	**76,414**	**(37,390)**	**39,024**

10. Property, plant and equipment (continued)

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

	Carrying value at beginning of year Rm	Additions Rm	Business combi-nations Rm	Transfers Rm	Transfers to investment properties Rm	Foreign currency translation reserve Rm	Impairment and write-offs Rm	Disposals Rm	Depreciation Rm	Carrying value at end of year Rm
2004										
Freehold land and buildings	**2,722**	**64**	**3**	**287**	**–**	**(1)**	**(5)**	**(5)**	**(275)**	**2,790**
Leasehold buildings	**635**	**59**	**–**	**–**	**(29)**	**–**	**–**	**–**	**(49)**	**616**
Network equipment	**31,009**	**1,524**	**–**	**1,374**	**–**	**(143)**	**(333)**	**(18)**	**(4,279)**	**29,134**
Support equipment	**1,587**	**140**	**–**	**252**	**–**	**(4)**	**(4)**	**–**	**(550)**	**1,421**
Furniture and office equipment	**206**	**10**	**–**	**23**	**–**	**–**	**(1)**	**–**	**(47)**	**191**
Data processing equipment and software	**3,220**	**491**	**–**	**1,170**	**–**	**(14)**	**(5)**	**(2)**	**(1,490)**	**3,370**
Under construction	**1,464**	**2,968**	**–**	**(3,099)**	**–**	**–**	**–**	**–**	**–**	**1,333**
Other	**203**	**51**	**–**	**(7)**	**–**	**(2)**	**(2)**	**(1)**	**(73)**	**169**
	41,046	**5,307**	**3**	**–**	**(29)**	**(164)**	**(350)**	**(26)**	**(6,763)**	**39,024**
2003										
Freehold land and buildings	2,719	19	–	258	–	(1)	(1)	(1)	(271)	2,722
Leasehold buildings	617	41	–	–	–	–	–	–	(23)	635
Network equipment	30,416	2,479	–	2,297	–	(207)	(103)	(8)	(3,865)	31,009
Support equipment	1,456	341	–	295	–	(4)	(2)	–	(499)	1,587
Furniture and office equipment	225	22	–	9	–	(1)	–	–	(49)	206
Data processing equipment and software	3,540	354	–	739	–	(11)	(27)	(3)	(1,372)	3,220
Under construction	2,700	2,416	–	(3,591)	–	–	(54)	(7)	–	1,464
Other	245	40	–	(7)	–	(2)	(2)	(4)	(67)	203
	41,918	5,712	–	–	–	(226)	(189)	(23)	(6,146)	41,046
2002										
Freehold land and buildings	2,585	1	–	324	–	–	–	(1)	(190)	2,719
Leasehold buildings	488	47	–	104	–	–	–	–	(22)	617
Network equipment	27,556	1,719	–	4,479	–	65	(12)	(67)	(3,324)	30,416
Support equipment	1,442	–	–	379	–	–	–	–	(365)	1,456
Furniture and office equipment	208	67	–	–	–	–	–	(6)	(44)	225
Data processing equipment and software	3,765	337	–	935	–	–	(219)	(16)	(1,262)	3,540
Under construction	2,408	6,727	–	(6,221)	–	–	(214)	–	–	2,700
Other	252	106	–	–	–	1	–	(38)	(76)	245
	38,704	9,004	–	–	–	66	(445)	(128)	(5,283)	41,918

The average time taken to construct assets varies from three to four months.

Full details of land and buildings are available for inspection at the registered office of the Company.

	2002 Rm	2003 Rm	2004 Rm
10. Property, plant and equipment (continued)			
Impairment and write-offs of assets	445	189	**350**
Assets under construction	214	54	**–**
Assets relating to information technology development that, due to a supplier dispute, are not re-usable, have been impaired in full	179	–	**–**
Certain information technology support system development found not to be economically viable, resulted in a full write-off	35	–	**–**
Assets under construction written off	–	54	**–**
Data processing equipment and software	219	27	**5**
Assets relating to information technology development that, due to a supplier dispute, are not re-usable, have been impaired in full	167	–	**–**
Telkom assessed its software in 2003 which resulted in the write-off of computer software	–	27	**–**
The Group implemented a new billing system during 2002. The carrying value of the previous billing system was impaired in full	52	–	**–**
Data processing equipment and software written off	–	–	**5**
Network equipment	12	103	**333**
The Group raised an impairment for an earth station. This asset was developed to route traffic between the Public Switch Telephone Network ("PSTN") of Telkom and the Satellite Access Node ("SAN") of a satellite company. The satellite company has not met its current outstanding financial obligations to Telkom and management is of the opinion that no future payments will be received. Management has assessed the asset and it appears unlikely that there will be future economic benefits flowing to the Group to recover the carrying value.	–	–	**149**
Decommissioned and obsolete equipment written off	12	103	**184**
Other			
Support equipment, buildings and other assets written off	–	5	**12**

11. Investment properties

	2004 Rm
Opening balance	**–**
Transfer from property, plant and equipment	**29**
Business combinations	**5**
Depreciation	**(2)**
Closing balance	**32**

11.1 Holding 350 Erand Agricultural Holdings Ext. 1, RSA

The fair value of the investment property at March 31, 2004 has been arrived at on the basis of a valuation carried out on that day by RMB Properties Limited, on an open market value basis at R60 million (Group share: R30 million). The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Debt is collateralised over this leasehold land and building and the fair value of the lease liability included in Note 37 is R110 million (Group share: R55 million).

The property has been reclassified to investment properties, due to the majority of the premises being leased to third parties.

The property rental income earned by Vodacom from its investment property, all of which is leased out under operating leases, amounted to R7 million (Group share: R4 million). Direct operating expenses incurred on the investment property in the period amounted to R2 million (Group share: R1 million).

11. Investment properties (continued)

11.2 Stand 13 and 14 Dunkeld West, RSA

The Group acquired these properties on March 1, 2004 through its equity investment in Smartphone SP (Proprietary) Limited (Note 35).

The fair value of these investment properties at March 31, 2004 have been arrived at on the basis of a valuation carried out at that day by professional valuators on an open market value basis at R10 million (Group share: R5 million). The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by Vodacom from these investment properties, all of which is leased out under operating leases, amounted to R0.1 million (Group share: R0.05 million).

	2002 Cost Rm	2002 Accumulated amortisation Rm	2002 Carrying value Rm	2003 Cost Rm	2003 Accumulated amortisation Rm	2003 Carrying value Rm	**2004 Cost Rm**	**2004 Accumulated amortisation Rm**	**2004 Carrying value Rm**
12. Intangible assets									
Goodwill	493	(185)	308	460	(241)	219	**572**	**(322)**	**250**
Trademarks, copyrights and other	274	(127)	147	322	(228)	94	**519**	**(280)**	**239**
Licences	104	(29)	75	95	(44)	51	**133**	**(42)**	**91**
	871	(341)	530	877	(513)	364	**1,224**	**(644)**	**580**

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

	Carrying value at beginning of year Rm	Additions Rm	Disposals Rm	Business combinations Rm	Impairment Rm	Foreign currency translation reserve Rm	Amortisation Rm	Transfers Rm	Carrying value at end of year Rm
2004									
Goodwill	**219**	**–**	**–**	**112**	**–**	**–**	**(73)**	**(8)**	**250**
Trademarks, copyrights and other	**94**	**4**	**–**	**194**	**–**	**–**	**(53)**	**–**	**239**
Licences	**51**	**57**	**–**	**–**	**–**	**(17)**	**(8)**	**8**	**91**
	364	**61**	**–**	**306**	**–**	**(17)**	**(134)**	**–**	**580**
2003									
Goodwill	308	–	–	–	(16)	–	(73)	–	219
Trademarks, copyrights and other	147	14	–	–	–	–	(67)	–	94
Licences	75	–	–	–	–	(17)	(7)	–	51
	530	14	–	–	(16)	(17)	(147)	–	364
2002									
Goodwill	180	194	–	–	–	–	(66)	–	308
Trademarks, copyrights and other	203	–	(3)	–	–	–	(53)	–	147
Licences	32	48	(8)	–	–	9	(6)	–	75
	415	242	(11)	–	–	9	(125)	–	530

In 2003 management reassessed the expected future economic benefit of the customer base and intellectual property included in trademarks and copyrights. Based on this assessment management expected these intangible assets to have no useful life beyond year-end, which resulted in an increased amortisation.

Impairment of goodwill

The Group impaired the goodwill arising on the acquisition of 40% of Swiftnet (Proprietary) Limited as a result of the performance of that company.

	2002 Rm	2003 Rm	**2004** **Rm**
13. Investments	859	1,161	**1,567**
Available for sale			
Unlisted investments	210	84	**60**
Intelsat Nil% (2003: Nil%, 2002: 1.16%) interest in International Telecommunications Satellite Organisation, headquartered in Washington DC, USA, at cost.	92	–	**–**
Telkom disposed of its investment in Intelsat effective December 30, 2002.			
Inmarsat Nil% (2003: 0.30%, 2002: 0.30%) interest in International Mobile Satellite Services Organisation, headquartered in London, United Kingdom, at cost.	9	9	**–**
Telkom disposed of its investment in Inmarsat effective December 16, 2003.			
Rascom 1.07% (2003: 1.07%, 2002: 1.18%) interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.	1	–	**–**
Cost	1	1	**1**
Impairment	–	(1)	**(1)**
The fair value of the unlisted investments cannot be practicably determined. The directors' valuations are based on the Group's interest in the entities' net asset values converted at year-end exchange rates.			
The aggregate directors' valuation of the above unlisted investments is Rnil (2003: R20,2 million, 2002: R292,6 million) based on the net asset values.			
Preference shares in Vodacom Congo (RDC) s.p.r.l. The preference shares of US$19 million (Group share: US$9 million) bear interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.	108	75	**60**
Listed investments	77	40	**57**
New Skies N.V. 0.89% (2003: 0.89%, 2002: 0.89%) interest in New Skies Satellite N.V., headquartered in The Hague, Netherlands at fair value. Market value: R49 million (2003: R40 million, 2002: R77 million).	77	40	**49**
SAGE shares	–	–	**8**

	2002 Rm	2003 Rm	2004 Rm
13. Investments (continued)			
Loans and receivables	–	94	**208**
ABSA Bank Limited Vodacom Congo (RDC) s.p.r.l.'s deposit account amounts to €10 million (Group share: €5 million) (2003: €8 million (Group share: €4 million)), which is charged as security for the extended credit facility of Vodacom Congo (RDC) s.p.r.l, and bears interest at EURIBOR less 0.2%. The deposit is refundable once the extended credit facility is repaid.	–	34	**39**
Planetel Communication Limited The loan of US$7 million (Group share: US$3 million) issued during the 2003 year, bears interest at LIBOR plus 5%. Planetel Communication Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period.	–	27	**22**
Caspian Construction Company Limited The loan of US$8 million (Group share: US$4 million) issued during the 2003 year, bears interest at LIBOR plus 5%. Caspian Construction Company Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period.	–	33	**25**
Vodacom Congo (RDC) s.p.r.l The joint venture partner's share of the loan issued by Vodacom International Limited to Vodacom Congo (RDC) s.p.r.l amounts to US$24 million (Group share: US$12 million). The loan bears interest at LIBOR plus 6.5%. The loan will be repaid on December 12, 2004.	–	–	**76**
Tel.One (Pvt) Limited The loan to Tel.One (Pvt) Limited is unsecured, interest free and will be repaid through traffic revenue from June 2004 over 5 years.	–	–	**46**
Held for trading	601	969	**1,410**
Linked insurance policies – Coronation	211	330	**553**
Linked insurance policies – Investec	33	20	**39**
Ordinary shares – listed – Investec	75	116	**234**
Cash – Investec	–	26	**88**
Other money market investments	240	477	**489**
Other unlisted investments	42	–	**7**
Less: Short-term investments	(29)	(26)	**(168)**
Tel.One (Pvt) Limited	–	–	**(10)**
Other investments	(29)	(26)	**–**
Absa Bank Limited	–	–	**(39)**
Vodacom Congo (RDC) s.p.r.l	–	–	**(76)**
Other money market investments	–	–	**(35)**
SAGE shares	–	–	**(8)**

	2002 Rm	2003 Rm	**2004 Rm**
13. Investments (continued)			
Included in held for trading investments is R1,370 million (2003: R938 million, 2002: R560 million) that will be used to fund the post-retirement medical aid liability. These investments have been made through a cell captive that has been consolidated in full.			
14. Deferred taxation	549	240	**(422)**
Balance at beginning of year	853	549	**240**
Adoption of IAS39	(250)	–	**–**
Income statement movements	(48)	(322)	**(604)**
Temporary differences	(326)	(300)	**(667)**
Underprovision/(overprovision) prior year	278	(22)	**63**
Business combinations	–	–	**(63)**
Foreign equity revaluation	(6)	13	**5**
The balance comprises:	549	240	**(422)**
Capital allowances	(2,152)	(2,700)	**(2,655)**
Provisions and other allowance	1,379	1,595	**1,628**
Tax losses	1,322	1,345	**406**
Secondary Taxation on Companies tax credits	–	–	**199**
Deferred tax balance is made up as follows:	549	240	**(422)**
Deferred tax assets	1,012	737	**720**
Deferred tax liabilities	(463)	(497)	**(1,142)**
Tax losses available for set-off against future taxable profits	4,412	4,581	**1,517**
Unutilised assessed losses for which no deferred tax assets were raised	225	124	**193**
Unutilised STC credits	–	945	**1,594**

Under South African tax legislation, tax losses for companies continuing to do business do not expire.

Secondary Taxation on Companies ("STC") is provided for at a rate of 12.5% on the amount by which dividends declared by the Group exceeds dividends received. It is recorded as a tax expense when dividends are declared. A deferred tax asset has been recognised in Telkom in respect of the STC credits on past dividends received not utilised against dividends declared for the year ended March 31, 2004, as it is now considered probable that it will be utilised in the future.

	2002 Rm	2003 Rm	2004 Rm
15. Other financial instruments	2,819	1,204	**596**
Held-to-maturity			
Repurchase agreements	100	222	**12**
Held-for-trading	2,719	982	**584**
Bills of exchange	10	(68)	**19**
Derivative instruments (Note 39)	2,709	1,050	**565**
Other financial instruments are made up as follows:	2,819	1,204	**596**
Other financial assets	3,712	1,771	**1,089**
Other financial liabilities	(893)	(567)	**(493)**

Repurchase agreements

The Group actively manages a portfolio of repurchase agreements in the South African capital and money markets, with a view to generating additional investment income on the favourable interest rates provided on these transactions. Interest received from the borrower is based on the current market-related yield.

		2002 Rm	2003 Rm	2004 Rm
2004				
Maturity period	Yield			
7 days	9.21%			**12**
2003				
Maturity period	Yield			
1 day	11.12% – 11.54%		151	
7 days	10.38%		71	
			222	
2002				
Maturity period	Yield			
7 days	13.30%	46		
5 days	13.02% – 13.30%	54		
		100		

Due the short-term nature of these transactions and the fact that the transactions are initiated based on market-related interest rates, the carrying value approximates the fair value. Collateral in the form of publicly traded bonds has been received in respect of the above transaction.

The terms and conditions of these transactions are governed by signed International Securities Market Association ("ISMA") agreements with all counter parties and the regulations of the Bond Exchange of South Africa ("BESA").

Bills of exchange

The fair value of bills of exchange has been derived at with reference to BESA quoted prices.

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for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004 Rm**
16. Income tax receivable	1,081	276	**–**
Tax receivable	899	236	**–**
Interest accrued	182	40	**–**

Income tax receivable related to an overpayment of estimated tax in respect of the 1999 tax year. The amount was repaid by the South African Revenue Services during the year.

	2002 Rm	2003 Rm	**2004 Rm**
17. Inventories	624	621	**520**
Gross inventories	670	696	**597**
Provision for obsolete inventories	(46)	(75)	**(77)**
Inventories consist of the following categories:	624	621	**520**
Installation, maintenance material and network equipment	385	374	**265**
Merchandise	239	247	**255**
Provision for obsolete inventories	46	75	**77**
Opening balance	53	46	**75**
Charged to selling, general and administrative expenses	89	110	**28**
Write-off against provision	(96)	(81)	**(26)**
18. Trade and other receivables	5,720	6,110	**6,066**
Trade receivables	4,858	5,423	**5,222**
Gross trade receivables	5,501	5,760	**5,547**
Provision for doubtful debts	(643)	(337)	**(325)**
Prepayments and other receivables	862	687	**844**
Provision for doubtful debts	643	337	**325**
Opening balance	493	643	**337**
Charged to selling, general and administrative expenses	984	249	**251**
Write-off against provision	(834)	(555)	**(263)**
19. Net cash and cash equivalents	(98)	837	**2,796**
Cash and bank balances	723	916	**1,219**
Short-term deposits	1	201	**1,999**
Cash shown as current assets	724	1,117	**3,218**
Credit facilities utilised	(822)	(280)	**(422)**
Undrawn borrowing facilities	2,154	3,018	**2,995**

The undrawn borrowing facilities are unsecured, bear interest at a rate linked to prime, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity (Note 36).

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

	2002 Rm	2003 Rm	**2004 Rm**
20. Share capital and premium			
Authorised and issued share capital and share premium are made up as follows:			
Authorised	10,000	10,000	**10,000**
999,999,998 (2003: 999,999,998, 2002: 1,000,000,000) ordinary shares of R10 each	10,000	10,000	**10,000**
1 (2003: 1, 2002: Nil) class A ordinary share of R10	–	–	**–**
1 (2003: 1, 2002: Nil) class B ordinary share of R10	–	–	**–**
Issued and fully paid	8,293	8,293	**8,293**
557,031,817 (2003: 557,031,817, 2002: 557,031,819) ordinary shares of R10 each	5,570	5,570	**5,570**
1 (2003: 1, 2002: Nil) class A ordinary share of R10	–	–	**–**
1 (2003: 1, 2002: Nil) class B ordinary share of R10	–	–	**–**
Share premium	2,723	2,723	**2,723**

Pursuant to a special resolution passed at the Annual General Meeting of Telkom held on January 27, 2003, Telkom's authorised and issued share capital was altered by the conversion of one ordinary share held by Government into one class A ordinary share with a par value of R10 and one ordinary share held by Thintana Communications into one class B ordinary share with a par value of R10.

The class A and B ordinary shares rank equally with the ordinary shares in respect of rights to dividends but differ in respect of the right to appoint directors. Full details of the voting rights of ordinary, class A and class B shares can be obtained from the Articles of Association of Telkom.

The unissued shares are under the control of the directors until the next Annual General Meeting.

The directors have been given the authority to buy back the Company's own shares up to a limit of 20% of the total share capital.

	2002 Rm	2003 Rm	**2004 Rm**
Preliminary listing costs	(44)	–	**–**

Preliminary listing expenses represent costs incurred in 2002 by the Group in preparation for the initial public offering. These costs were deferred to be written off against share premium when new shares were issued. However, this was expensed on September 30, 2002 as the Board decided not to issue additional shares on date of listing.

	2002 Rm	2003 Rm	**2004 Rm**
Treasury shares	–	–	**(238)**

3,185,736 ordinary shares in Telkom, with a fair value of R251 million, are currently held by its subsidiary Rossal No. 65 (Proprietary) Limited.

Notes to the consolidated annual financial statements

for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004** **Rm**
21. Non-distributable reserves	134	(11)	**104**
Balance at beginning of year	–	134	**(11)**
Adoption of IAS39	45	–	**–**
Movement during year	89	(145)	**115**
Foreign currency translation reserve (net of tax of R5 million, 2003: R11 million, 2002: (R10 million))	49	(121)	**(83)**
Fair value adjustment on investments	5	(37)	**9**
Life fund reserve (Cell Captive)	35	13	**189**
The balance comprises:	134	(11)	**104**
Foreign currency translation reserve	49	(72)	**(155)**
Fair value adjustment on investments	50	13	**22**
Cell Captive reserve	35	48	**237**

The Group has two consolidated cell captives, one used as an investment to fund Telkom's post-retirement medical aid liability and the other for short-term insurance.

In terms of the Short-term Insurance Act, 1998, the Vodacom Group cell captive partner, Nova Risk Partners Limited is required to raise a contingency reserve equal to 10% of premiums written less approved reinsurance (as defined in the Act). This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.

The earnings from the cell captives are transferred to non-distributable reserves.

	2002 Rm	2003 Rm	**2004** **Rm**
22. Minority interest	133	194	**200**
Opening balance	116	133	**194**
Movement – current year	17	61	**6**
Reconciliation	133	194	**200**
Balance at beginning of year	116	133	**194**
Disposal	(41)	–	**–**
Share of earnings	59	105	**69**
Foreign currency translation reserves	–	(19)	**(9)**
Dividends paid	(1)	(25)	**(54)**

	2002 Rm	2003 Rm	**2004 Rm**
23. Retained earnings	8,449	10,066	**13,899**
Balance at beginning of year	6,679	8,449	**10,066**
Adoption of IAS39	584	–	**–**
Movement during year	1,186	1,617	**3,833**
Net profit for the year	1,221	1,630	**4,523**
Transfer to non-distributable reserves	(35)	(13)	**(189)**
Dividend declared for the year	–	–	**(501)**
The balance comprises:	8,449	10,066	**13,899**
Company	5,660	6,367	**9,749**
Joint venture	2,678	3,485	**3,951**
Subsidiaries	111	214	**199**

Adoption of IAS39

On April 1, 2001 the Group prospectively adopted IAS39 Financial Instruments: Recognition and Measurement. In accordance with IAS39, adjustments have been made to reserves on the date of adoption, while comparative amounts have not been restated.

Increase in net profit

	2002 Rm
Gross	468
Taxation	(140)
Net	328

Increase in opening retained earnings

	2002 Rm
Gross	834
Taxation	(250)
Net	584

	2002 Rm	2003 Rm	2004 Rm
24. Interest-bearing debt	22,533	17,453	**12,703**
(a) Local debt	17,991	16,000	**10,983**
Locally registered Telkom debt instruments	15,101	14,436	**9,412**
Name, maturity, rate p.a., nominal value			
TK01, 2008, 10%, R4,609 million (2003: R4,491 million, 2002: R4,594 million)	3,552	3,566	**3,812**
TL08, 2004, 13%, R2,299 million (2003: R3,500 million, 2002: R3,500 million)	3,272	3,368	**2,286**
TL03, 2003, 10.75%, RNil (2003: R4,311 million, 2002: R5,000 million)	4,985	4,306	**–**
TL06, 2006, 10.5%, R1,455 million (2003: R1,455 million, 2002: R1,455 million)	1,435	1,438	**1,440**
TL20, 2020, 6%, R2,500 million (2003: R2,500 million, 2002: R2,500 million)	1,119	1,136	**1,155**
PP01, 2002, 12.5%, RNil (2003: RNil, 2002: R200 million)	200	–	**–**
PP02, 2010, 0%, R430 million (2003: R430 million, 2002: R430 million)	132	152	**174**
PP03, 2010, 0%, R1,350 million (2003: R1,350 million, 2002: R1,350 million)	406	470	**545**
Local bonds The local Telkom bonds are unsecured, but contain a number of restrictive covenants, which limit Telkom's ability to create encumbrances on revenues or assets, and to secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness. TL20 loan contains restrictive financial covenants. Telkom is a buyer or seller of last resort in the Telkom bond TK01. To eliminate the resultant exposure Telkom sells or buys government bonds. The objective of the hedging relationship is to eliminate price risk whereby value changes on the TK01 transactions are in total offset by value changes in the government stock.			
Repurchase agreements	21	167	**27**
Commercial paper bills 2003 – 2005, 13.5% to 15.13%, R1,708 million (2003: R1,766 million, 2002: R2,962 million).	2,387	1,397	**1,542**
Interest-bearing loans	482	–	**–**
Commerzbank AG The loan was uncollateralised, bore interest at a fixed quarterly rate of 13.7% and was repaid on March 17, 2003.	100	–	**–**
Crédit Agricole Indosuez The loan was uncollateralised, bore interest at a fixed quarterly rate of 14.0% NACQ and was repaid on March 17, 2003.	100	–	**–**
Vodacom (Proprietary) Limited	13	–	**–**
Vodacom Tanzania Limited The loan of US$47 million (Group share: US$24 million) from Standard Bank of London was collateralised, bore interest at an effective interest rate of LIBOR plus 1.5% and was repaid during August 2002.	269	–	**–**
Interest free long-term loans			
Sekha-Metsi Consortium Limited (unsecured)	–	–	**2**

	2002 Rm	2003 Rm	**2004 Rm**
24. Interest-bearing debt (continued)			
(b) Foreign debt	5,663	5,098	**4,574**
United States Dollar: 2002 – 2003, 3.14%, \$Nil (2003: \$1,2 million, 2002: \$4 million)	42	10	**–**
Euro: 2002 – 2005, 0.10% – 7.13%, €512 million (2003: €512 million, 2002: €514 million)	5,133	4,445	**3,988**
South African Rand: 2009, 10.56%, RNil (2003: RNil, 2002: R359 million)	359	–	**–**
Planetel Communications Limited The shareholder loan of US\$10 million (2003: US\$10 million, 2002: US\$2 million) (Group share: US\$5 million, 2003: US\$5 million, 2002: US\$1 million), is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 (2002: 1%), and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan was re-measured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on re-measurement was included in the income statement.	10	24	**18**
Caspian Construction Company Limited The shareholder loan of US\$8 million (2003: US\$8 million, 2002: US\$2 million) (Group share: US\$4 million, 2003: US\$4 million, 2002: US\$1 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 (2002: 1%), and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan was re-measured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on re-measurement was included in the income statement.	11	21	**21**
Extended credit facility to Vodacom Congo (RDC) s.p.r.l. Vodacom Congo (RDC) s.p.r.l's extended credit facility amounts to €39 million (Group share: €20 million), which is partially collateralised by guarantees of a cash deposit, and bears interest at a rate between EURIBOR plus 1.50% and EURIBOR plus 1.75%. The facility will be fully repaid by July 31, 2005.	–	169	**155**
Revolving credit facility to Vodacom Congo (RDC) s.p.r.l. Vodacom's share of the short-term revolving credit facility provided by ABSA amounts to US\$16 million (2003: US\$16 million) (Group share: US\$8 million, 2003: US\$8 million). The credit facility is collateralised by guarantees provided by the Group, which bears interest at an effective interest rate of LIBOR plus 1.5% and is available until December 31, 2004. Vodacom's share of the short-term Euro revolving credit facility provided by Standard Finance (Isle of Man) Limited amounts to €12 million (2003: €Nil) (Group share: €6 million, 2003: €Nil). The credit facility is collateralised by guarantees provided by Vodacom and bears interest at an effective interest rate of EURIBOR plus 1.5%. Vodacom's share of the short-term Dollar revolving credit facility provided by Standard Finance (Isle of Man) Limited amounts to US\$19 million (2003: US\$Nil) (Group share: US\$10 million, 2003: US\$Nil). The credit facility is collateralised by guarantees provided by Vodacom and bears interest at an effective interest rate of LIBOR plus 1.5%.	–	65	**156**

	2002 Rm	2003 Rm	**2004 Rm**
24. Interest-bearing debt (continued)			
Project finance funding for Vodacom Tanzania Limited The drawn down portions of the project finance funding from external parties includes the following: (a) Netherlands Development Finance Company US$11 million (Group share: US$6 million) (b) DEG €12 million (Group share: €6 million) (c) Standard Corporate and Merchant Bank US$16 million (Group share: US$8 million) (2003: US$20 million (Group share: US$10 million)) (d) Barclays Bank (Local Syndicate Tanzania) TSH15,356 million (2003: TSH19,744 million) (Group share: TSH7,678 million, 2003: TSH 9,872 million) is collateralised by a charge over 51% of the shares, the licence and Vodacom Tanzania Limited's tangible and intangible assets. The loans bear interest based upon the foreign currency denomination of the project financing between 4.9% and 11.6% per annum and will be fully repaid by March 2009.	–	251	**174**
Loan to Vodacom Congo (RDC) s.p.r.l. Vodacom's share of the loan provided by Standard Finance (Isle of Man) Limited amounted to US$9 million (Group share: US$5 million) at March 31, 2003. The loan bore interest at an effective rate of LIBOR plus 1.5% and was repaid on July 1, 2003.	–	35	**–**
Vodacom Congo (RDC) s.p.r.l. Vodacom's share of the short-term facility amounts to US$1 million (Group share: US$0,5 million). The facility bears interest at 18% per annum. The facility is subject to termination of the collection agreement.	–	3	**2**
Preference shares issued by Vodacom Congo (RDC) s.p.r.l The preference shares of US$19 million (Group share: US$9 million) bear interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.	108	75	**60**
(c) Finance leases	1,033	1,114	**1,197**
The finance leases are secured by land and buildings with a book value of R616 million (2003: R635 million, 2002: R617 million) (Note 10). These amounts are repayable within periods ranging from 4 to 15 years. Interest rates vary between 12.10% and 16.90% (2003: 13.44% and 18.3%) (Note 37).			
Less: Current portion of interest-bearing debt	(2,154)	(4,759)	**(4,051)**
Local debt	(1,982)	(4,527)	**(3,628)**
Locally registered Telkom debt instruments	(200)	(4,306)	**(2,286)**
Repurchase agreements	(21)	(167)	**(27)**
Commercial paper bills	(1,278)	(54)	**(1,313)**
Long-term loans	(201)	–	**–**
Short-term loans	(282)	–	**–**
Short-term interest free loans	–	–	**(2)**
Foreign debt	(167)	(225)	**(408)**
Finance lease	(5)	(7)	**(15)**

	2002 Rm	2003 Rm	2004 Rm
24. Interest-bearing debt (continued)			
Included in long-term and short-term debt is:			
Guaranteed debt	4,088	3,683	**3,906**
By the South African Government	3,729	3,683	**3,906**
By South African Banks	359	–	**–**

A major portion of the guarantee debt relates to the TK01 debt instrument.

Telkom may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. These borrowing powers are set out in the Company's Articles of Association.

Repurchase agreements

The Group actively manages a portfolio of repurchase agreements in the South African capital and money markets with a view to financing short-term liquidity gaps. Interest paid by the Group is based on the current market-related yield.

		2002 Rm	2003 Rm	2004 Rm
2004				
Maturity period	Yield			
7 days	9.3%			**27**
2003				
Maturity period	Yield			
1 day	10.8% – 11.54%		167	
2002				
Maturity period	Yield			
13 days	13.10%	1		
5 days	13.02% – 13.30%	20		
		21		

Due to the short-term nature of these transactions and the fact that the transactions are initiated based on market-related interest rates, the carrying value approximates the fair value.

Collateral in the form of publicly tradable bonds has been delivered in respect of the above transactions.

The terms and conditions of these transactions are governed by signed ISMA agreements with all counter parties and the regulations of the BESA. The fair value has been derived with reference to BESA quoted prices.

25. Repayment of total interest-bearing debt

	2002 Rm	2003 Rm	2004 Rm
Total interest-bearing debt	24,687	22,212	**16,754**
Gross interest-bearing debt	29,190	26,181	**20,151**
Discount on debt instruments issued	(4,503)	(3,969)	**(3,397)**

Year repayable	2002 Total Rm	2003 Total Rm	2004 Foreign Rm	2004 Local Rm	2004 Total Rm
2002/2003	2,073	–	**–**	**–**	**–**
2003/2004	5,072	4,768	**–**	**–**	**–**
2004/2005	4,955	5,173	**408**	**3,789**	**4,197**
2005/2006	5,278	4,682	**3,940**	**287**	**4,227**
2006/2007	1,834	1,553	**58**	**1,495**	**1,553**
2007/2008	4,594	4,576	**44**	**4,666**	**4,710**
2008/2009	359	127	**39**	**96**	**135**
Thereafter	5,025	5,302	**85**	**5,244**	**5,329**
	29,190	26,181	**4,574**	**15,577**	**20,151**

	2002 Rm	2003 Rm	**2004 Rm**
26. Provisions	2,590	2,540	**2,438**
Employee related	4,173	4,299	**4,008**
Annual leave	463	417	**401**
Balance at beginning of year	450	463	**417**
Charged to employee expenses	136	114	**162**
Leave utilised or paid	(123)	(160)	**(178)**
Medical aid (Note 29)	2,154	2,289	**2,420**
Balance at beginning of year	2,183	2,154	**2,289**
Interest cost	224	225	**249**
Current service cost	14	20	**24**
Actuarial gain	(5)	(5)	**–**
Settlement and curtailment (gain)/loss	(5)	22	**(1)**
Termination settlement	(144)	(13)	**(9)**
Contributions	(113)	(114)	**(132)**
Retirement and pension fund deficits	759	474	**–**
Balance at beginning of year	985	759	**474**
Repayment of the deficit	(307)	(325)	**(518)**
Interest cost	119	86	**44**
Curtailment gain	(38)	(9)	**–**
Realisation of fund reserve	–	(37)	**–**
Sick leave	315	349	**338**
Balance at beginning of year	332	315	**349**
Net current service cost	(17)	34	**(11)**
Telephone rebates (Note 29)	146	162	**164**
Balance at beginning of year	134	146	**162**
Interest cost	10	24	**19**
Current service cost	2	3	**4**
Actuarial gain	–	(11)	**(21)**
Bonus	336	608	**685**
Balance at beginning of year	284	336	**608**
Charged to employee expenses	224	460	**546**
Payment	(172)	(188)	**(469)**

	2002 Rm	2003 Rm	**2004 Rm**
26. Provisions (continued)			
Non-employee related	392	396	**88**
Supplier dispute (Note 38)	375	356	**–**
Balance at beginning of year	–	375	**356**
Charged/(released) to selling, general and administrative expenses	375	(19)	**(356)**
Warranty provision	1	5	**17**
Balance at beginning of year	–	1	**5**
Charged to selling, general and administrative expenses	20	5	**14**
Provisions utilised	(19)	(1)	**(2)**
Other	16	35	**71**
Balance at beginning of year	19	16	**35**
Charged to selling, general and administrative expenses	38	28	**71**
Provision utilised	(41)	(9)	**(35)**
Less: Current portion of provisions	(1,975)	(2,155)	**(1,658)**
Annual leave	(463)	(417)	**(401)**
Medical aid	(200)	(150)	**(158)**
Retirement and pension fund deficits	(258)	(221)	**–**
Sick leave	(315)	(349)	**(338)**
Telephone rebate	(11)	(14)	**(12)**
Bonus	(336)	(608)	**(685)**
Supplier dispute	(375)	(356)	**–**
Warranty provision	(1)	(5)	**(17)**
Other	(16)	(35)	**(47)**

Annual leave
In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 28 days for Telkom and 45 days for Vodacom. This is reviewed annually and is in accordance with legislation.

Sick leave
Sick leave provision is determined in accordance with the Group's policy. This represents amounts accrued to the benefit of the employees and may be paid, due to the inability of an employee to render services for an extended period due to illness.

Bonus
The Telkom bonus scheme consists of performance bonuses which are dependent on achievement of certain financial and non-financial targets. The bonus is payable once every year after the Company results have been made public. To qualify staff members must be in service on the financial results date.

Vodacom's bonus provision consists of a performance bonus based on profit achievement. The performance bonus is payable in May each year to members of management and is payable bi-annually in December and May to staff members. The maximum bonus payable is determined by applying a specific formula based upon Vodacom achieving a pre-determined profit and the employee's achievement of specified performance targets. Management and staff must be in service on May 31 to qualify for the bonus.

26. Provisions (continued)

Deferred bonus incentive

The Vodacom's deferred bonus incentive provision represents the present value of the expected future cash out flows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

The value of the bonus entitlements are determined based upon the audited consolidated financial statements of the Vodacom Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision is utilised when eligible employees receive the value of vested entitlements.

Supplier dispute

Telkom provided RNil (2003: R356 million, 2002: R375 million) for its estimate of a probable liability which includes interest and legal fees (Note 38).

Warranty provision

During the 2002 financial year, the warranty provision was created in Vodacom to cover manufacturing defects in the second year of warranty on handsets sold to customers.

Other

Other provisions include provisions for losses as a result of onerous contracts, advertising co-operation provision funds received from suppliers of handsets and various other smaller provisions.

The provisions for onerous contracts represents the Group's liability in respect of onerous lease contracts related to certain buildings. The provision is discounted for the respective periods of the lease contracts.

The advertising cooperation provision is based on a percentage of the purchase price of handsets purchased by Vodacom Service Provider Company (Proprietary) Limited from the various handset manufacturers. This provision is realised when the Company provides evidence to the handset manufacturer that the Company has incurred advertising expenditure in accordance with the manufacturers' co-operation rules. The external service providers can claim future advertising expenditure incurred by them per manufacturer from this provision, based on their purchases from the Company. The provision represents the advertising expenditure not yet spent by the Company or external service providers.

	2002 Rm	2003 Rm	**2004** **Rm**
27. Trade and other payables	6,663	5,229	**6,007**
Trade payables	4,877	2,801	**3,435**
Finance cost accrued	1,126	532	**463**
Accruals	660	1,896	**2,109**
28. Deferred income	958	1,030	**1,345**

Included in deferred income is profit on the sale and leaseback of certain Telkom buildings of R162 million (2003: R173 million, 2002: R184 million). A profit of R11 million is recognised in income on a straight line basis, over the period of the lease ending 2019.

29. Employee benefits

The Group provides benefits for all its permanent employees through the Telkom Pension Fund, the Telkom Retirement Fund and the Vodacom Group Pension Fund. Membership is compulsory. In addition, certain retired employees of Telkom SA Limited receive medical aid and a telephone rebate. All of the liabilities are actuarially determined and valuations performed at intervals not exceeding three years. Actuarial calculations are performed in the periods between valuations.

At March 31, 2004, the Group employed 37,543 employees (2003: 40,129; 2002: 43,960), of which 312 represents employees affected by the restructuring.

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991. All employees who were members of the Government Service Pension Fund and Temporary Employees Pension Fund were transferred to a newly established Telkom Pension Fund. The deficits that existed in the aforementioned state funds were transferred to the Telkom Pension Fund. Legislation also made provision that Telkom would guarantee the financial obligations of the Telkom Pension Fund. The SA Government guaranteed the actuarially valued deficit of the Telkom Pension Fund as at September 20, 1991, plus interest as determined by the State Actuary. Telkom can only benefit from the surplus through contribution holidays, if the funding level exceeds 100%. The most recent statutory valuation of the Telkom Pension Fund was performed as at March 31, 2002. The latest actuarial calculation performed at March 31, 2004 indicates that the pension fund is in a surplus funding position of R29 million.

With effect from July 1, 1995, the Telkom Pension Fund was closed to new members. The funded status of the Telkom Pension Fund is disclosed below:

	2002 Rm	2003 Rm	**2004 Rm**
Telkom Pension Fund			
Present value of funded obligation	167	162	**190**
Fair value of plan assets	(150)	(211)	**(219)**
Funded status	17	(49)	**(29)**
Unrecognised net actuarial loss	(86)	(50)	**(100)**
Unrecognised net assets	(69)	(99)	**(129)**
The surplus is not recognised due to the legal status of surpluses in South Africa.			
Expected return on plan assets	24	28	**31**
Actuarial gain/(loss) on plan assets	7	(28)	**(41)**
Actual return/(loss) on plan assets	31	–	**(10)**
Principal actuarial assumptions were as follows:			
Discount rate (%)	15.0	11.5	**10.0**
Expected return on plan assets (%)	10.0	14.0	**10.0**
Salary inflation rate (%)	7.5	8.0	**7.0**
Pension increase allowance (%)	5.2	4.7	**3.8**
Funding level per actuarial valuation (%)	91.0	94.0	**94.0**
The number of employees registered under the Telkom Pension Fund Plan	448	382	**339**

The Telkom Retirement Fund

The Telkom Retirement Fund was established on July 1, 1995 as a defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after July 1, 1995 were transferred to the Telkom Retirement Fund. At the same time the proportionate share of the deficit relating to the transferring employees and pensioners was transferred to the Telkom Retirement Fund. Upon transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to July 1, 1995 further transfers of existing employees occurred. The most recent statutory valuation of the Telkom Retirement Fund was performed as at March 31, 2002.

The Telkom Retirement Fund is governed by the Pension Funds Act, Act No. 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced.

29. Employee benefits (continued)

The Telkom Retirement Fund is a defined contribution fund with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom guarantees a minimum benefit to retirees that is based on their contributions and the performance of the defined contribution plan at retirement date. Increases in the benefit subsequent to an employee's retirement are also guaranteed.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund. The latest actuarial calculation performed at March 31, 2004 indicates that the retirement fund is in a surplus funding position of R378 million.

In December 2001 the Pension Funds Second Amendment Act was promulgated. The Act generally provides for:
- the payments of enhanced benefits to former members and minimum pension increases for pensioners; and
- the appointment of any actuarial surplus existing in the fund, at the apportionment date, in an equitable manner between existing members, including pensioners, former members and the employer in such proportions as the trustees of the fund shall determine.

Unless this process has been finalised, Telkom cannot recognise the surplus in the fund.

The funded status of the Telkom Retirement Fund is disclosed below.

	2002 Rm	2003 Rm	2004 Rm
Telkom Retirement Fund			
Deficit (Originated on transfer from Telkom Pension Fund on July 1, 1995 and transfers thereafter).			
Actuarial calculation/valuation	742	474	–
Present value of funded obligation	3,055	2,679	**3,162**
Fair value of plan assets	(3,805)	(3,106)	**(3,540)**
Funded status	(750)	(427)	**(378)**
Unrecognised net actuarial gain/(loss)	460	(190)	**(382)**
Unrecognised net assets	(290)	(617)	**(760)**
Expected return on plan assets	444	479	**421**
Actuarial (loss)/gain on plan assets	(60)	(699)	**318**
Actual return on plan assets	384	(220)	**739**
Included in fair value of plan assets is:			
Office buildings occupied by Telkom	111	127	**127**
Telkom bonds	63	27	**46**
Telkom shares	–	28	**121**
Principal actuarial assumptions were as follows:			
Discount rate (%)	12.2	11.5	**10.0**
Expected return on plan assets (%)	14.0	14.0	**10.0**
Salary inflation rate (%)	7.5	8.0	**7.0**
Pension increase allowance (%)	5.2	4.7	**3.8**
Funding level per actuarial valuation (%)	84	84	**84**
The number of pensioners registered under the Telkom Retirement Fund Plan	13,963	13,756	**14,268**
The number of in-service employees registered under the Telkom Retirement Fund	38,927	34,974	**32,017**

Vodacom Group Pension Fund

All eligible employees of Vodacom and its wholly owned subsidiaries are members of the Vodacom Group Pension Fund, a defined contribution pension scheme. Executive employees of Vodacom and its wholly owned subsidiaries also have the option to be members of Vodacom Group Executive Provident Fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. The Group's share of the contribution to the pension fund amounted to R33 million (2003: R26 million; 2002: R21 million). The Group's share of the contribution to the Provident Fund amounted to R3 million (2003: R3 million; 2002: R1 million). The Vodacom employees at March 31, 2004 were 4,609 (2003: 4,406; 2002: 4,353). The fund is governed by the Pension Funds Act No. 24 of 1956.

29. Employee benefits (continued)

Medical benefits

Telkom SA Limited makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in Note 5.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in Note 26. The Group has terminated future post-retirement medical benefits in respect of employees joining after July 1, 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ("Pre-94"); those who retired after 1994 ("Post-94"); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases annually with the average salary increase.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid. The most recent valuation of the benefit was performed as at March 31, 2002. The next valuation for the fund will be in 2005. The Company has allocated certain investments to fund this liability as set out in Note 13. These investments do not qualify as plan assets.

The status of the medical aid liability is disclosed below:

	2002 Rm	2003 Rm	**2004 Rm**
Medical aid			
Present value of unfunded obligation	1,886	2,161	**2,378**
Unrecognised net actuarial gain	268	128	**42**
Liability as disclosed in the balance sheet (Note 26)	2,154	2,289	**2,420**
Principal actuarial assumptions were as follows:			
Discount rate (%)	15.0	11.5	**10.0**
Salary inflation (%)	7.5	8.0	**7.0**
Medical inflation rate (%)	10.5	10.5	**8.0**
Withdrawal rate (%)	30.0	30.0	**15.0**
Actual retirement age	65	65	**65**
Average retirement age	63	63	**63**
Number of members	32,013	27,305	**23,522**
The number of pensioners	8,180	8,180	**8,233**

Telephone rebates

Telkom SA Limited provides telephone rebates to its pensioners. The most recent valuation was performed in March 2004. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:

	2002 Rm	2003 Rm	**2004 Rm**
Present value of unfunded obligation (Note 26)	146	162	**164**
Principal actuarial assumptions were as follows:			
Discount rate (%)	15.0	11.5	**10.0**
Rebate inflation rate (%)	7.5	8.0	**5.0**
Actual retirement age	65	65	**65**
Average retirement age	63	63	**63**
Number of members	28,740	23,427	**21,867**
The number of pensioners	12,305	14,023	**11,686**

Employee share awards

Telkom's shareholders approved the Telkom Employee Conditional Share Plan at the January 2004 Annual General Meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a RNil exercise price, at the end of the vesting period. The vesting period for the operational employee share award is 0% in year one, and 33% in each of the years thereafter, while management share award vests fully after three years. Although the number of shares allocated to employees will be communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met.

The Telkom Board approved the first grant of 3.2 million shares before year-end. The allocation to the employees did, however, not take place in the current year. No consideration is payable on the shares issued to employees, but performance criteria will need to be met in order for the shares to vest.

Notes to the consolidated annual financial statements
for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004 Rm**
30. Reconciliation of profit after taxation to cash generated from operations	11,583	12,063	**15,770**
Profit after taxation	1,280	1,735	**4,592**
Finance charges	2,550	4,154	**3,264**
Taxation	873	1,049	**1,711**
Investment income	(512)	(424)	**(479)**
Listing costs	–	154	**–**
Non-cash items	5,713	6,299	**6,518**
Depreciation, amortisation, impairment and write-offs	5,853	6,498	**7,249**
Decrease in provisions	(110)	(139)	**(687)**
Profit on disposal of property, plant and equipment	(30)	(15)	**(19)**
Profit on disposal of investment	–	(89)	**(25)**
Share issue expenses reversed	–	44	**–**
Decrease/(increase) in working capital	1,679	(904)	**164**
Inventories	246	(26)	**115**
Accounts receivable	(144)	(107)	**(275)**
Accounts payable	1,577	(771)	**324**
31. Finance charges paid	(3,026)	(2,776)	**(1,255)**
Finance charges per income statement	(2,550)	(4,154)	**(3,264)**
Non-cash items	(476)	1,378	**2,009**
Movements in interest accruals	548	(552)	**643**
Net discount amortised	663	592	**581**
Fair value adjustment	(3,036)	2,074	**1,130**
Unrealised loss/(gain)	1,704	(736)	**(345)**
IAS39 application adjustment	(355)	–	**–**
32. Taxation (paid)/refunded	(914)	102	**(562)**
Net asset at beginning of year	795	888	**99**
Interest accrual on tax receivable	4	40	**–**
Taxation	(825)	(727)	**(1,107)**
Business combination	–	–	**(14)**
Net (asset)/liability at end of year	(888)	(99)	**460**
33. Dividend paid		(25)	**(548)**
Dividends payable at beginning of year		–	**–**
Dividends declared		–	**(501)**
Dividends paid to minority shareholders		(25)	**(54)**
Dividends payable at end of year		–	**7**

	2002 Rm	2003 Rm	2004 Rm
34. Disposal of subsidiaries and joint ventures			
The Group's 50% joint venture company, Vodacom, disposed of the following:			
On February 27, 2002, its 51% interest in Vodacom Sport and Entertainment (Proprietary) Limited;			
On November 30, 2001, its 40% interest in Vodacom World Online (Proprietary) Limited; and on March 31, 2002, its 100% interest in Film Fun Holdings (Proprietary) Limited; Teljoy Botswana (Proprietary) Limited; and Africell Cellular Services (Proprietary) Limited.			
These disposals were effected in order to dispose of non-core operations.			
Aggregate carrying value of net assets disposed of	38		
Property, plant and equipment	36		
Inventory	3		
Accounts receivable	121		
Accounts payable	(167)		
Intangibles	11		
Investments	5		
Loan	14		
Cash and cash equivalents	15		
Minority interest	(2)		
Profit on disposal	8		
Disposal proceeds	44		
Cash and cash equivalents	(15)		
Net cash consideration	29		
Settlement method			
Net cash inflow from disposals	13	16	
Cash	29	16	
Current receivables	(16)	–	
The total amount of R16 million, which includes accrued interest, was received during the 2003 financial year.			
35. Acquisition of subsidiaries, joint ventures and minority shareholders' interests			
The following acquisitions were made:			
By the Company	(182)		
On October 11, 2001, an additional 10% of Telkom Directory Services (Proprietary) Limited, bringing the Group's share to 64.9%	(160)		
On May 16, 2001, an additional 40% of Swiftnet (Proprietary) Limited, bringing the Group's shareholding to 100%	(22)		
During the 2004 financial year, a 100% shareholding in Rossal No. 65 (Proprietary) Limited for R100.			–

	2002 Rm	2003 Rm	2004 Rm
35. Acquisition of subsidiaries, joint ventures and minority shareholders' interests (continued)			
By the Group's 50% joint venture, Vodacom			
During the 2003 financial year the Group exercised its option included in the finance lease agreement and acquired 100% of Skyprops 157 (Proprietary) Limited.			–
On March 1, 2004, a 51% interest in the equity of Smartphone SP (Proprietary) Limited, which has a 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited and 52% in Ithuba Smartcall (Proprietary) Limited.			–
The aggregate fair value of assets acquired and liabilities assumed on the purchase of subsidiaries and joint ventures were as follows:			
Aggregate fair value of net assets acquired			(5)
Property, plant and equipment			(3)
Investment properties			(5)
Trademarks, copyrights and other			(194)
Investments			(8)
Inventory			(16)
Accounts receivable			(58)
Cash and cash equivalents			(75)
Deferred taxation liability (including tax effect on intangibles)			60
Accounts payable			279
Taxation payable			15
Goodwill			(112)
Purchase price (including capitalised costs)			(117)
Cash and cash equivalents			75
Cash consideration			(42)
Less: Amount payable			117
			75

The purchase price of R231 million (Group share: R116 million) was paid on April 7, 2004. The outstanding amount accrued interest at prime less 2% per annum from March 1, 2004 up to the date of payment.

The Company has a contingent asset of R70,1 million. Should this contingent asset realise in the following year, an adjustment will be made to the purchase price and goodwill.

No minority interest exists on acquisition as a result of the negative net equity position of the Company.

VM S.A.R.L trading as Vodacom Mozambique

During the 2004 financial year VM S.A.R.L trading as Vodacom Mozambique commenced operations. This transaction had no initial cash effect on the Group's cash flows.

36. Undrawn borrowing facilities and guarantees

36.1 Rand denominated facilities and guarantees

Telkom has general banking facilities of R1,118 million with R1,083 million unutilised at March 31, 2004. The facilities are unsecured, bear interest at a rate linked to prime, have no specific maturity date and are subject to annual review.

The Group exposure is 50% of the following items:

Vodacom has a Rand denominated credit facility totalling R3,949 million with R3,538 million unutilised at March 31, 2004. The facilities are uncommitted and can also be utilised for foreign loans and are subject to review at various dates (usually on an annual basis).

36. Undrawn borrowing facilities and guarantees (continued)

Guarantor	Details	Beneficiary	2002 Rm	2003 Rm	2004 Rm
Vodacom (Proprietary) Limited	All guarantees less than R2 million in terms of various lease agreements	Various	3	3	**3**
Vodacom Service Provider Company (Proprietary) Limited	All guarantees less than R2 million in terms of various lease agreements	Various	1	2	**3**
Vodacom Group (Proprietary) Limited	Guarantee in respect of receipt of independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in RSA. Terminates on May 31, 2004.	SA Insurance Association for benefit of insurers	–	10	**14**
			4	15	**20**

36.2 Foreign denominated facilities and guarantees

The Group exposure is 50% of the following items:

Vodacom Tanzania Limited has project funding facilities of US$55 million, which were fully utilised at March 31, 2004. Vodacom Congo (RDC) s.p.r.l. has bridging facilities of €79 million which were fully utilised at March 31, 2004. Vodacom Congo (RDC) s.p.r.l. also has a revolving credit facility of US$50 million of which US$5 million was utilised at March 31, 2004. Foreign currency term facilities are predominantly US Dollar based, at various maturities and are utilised for bridging and short-term working capital needs.

Guarantor	Details	Beneficiary	Currency	2002 Rm	2003 Rm	2004 Rm
Vodacom (Proprietary) Limited	Standby letters of credit*	Alcatel CIT	€25 million (2003: €27 million; 2002: €30 million)	300	233	**195**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.**	Absa	€54 million (2003: €50 million; 2002: €Nil)	–	430	**416**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.'s revolving credit facility**	Absa	US$32 million (2003 US$32 million; 2002: US$Nil)	–	255	**202**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.**	Standard Finance (Isle of Man) Limited	€23 million (2003: €Nil; 2002: €Nil)	–	–	**174**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.**	Standard Finance (Isle of Man) Limited	US$38 million (2003: US$Nil; 2002: US$Nil)	–	–	**237**
Vodacom International Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.'s revolving credit facility**	Alcatel CIT	€25 million (2003: €Nil; 2002 €Nil)	–	–	**193**
				300	918	**1,417**

* Amounts drawn down on the standby letters of credit amounted to R49 million (2003: R67 million; 2002: R98 million) and are included as liabilities in the balance sheet.

** Foreign denominated guarantees amounting to R623 million (2003: R349 million; 2002: RNil) issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the balance sheet.

Companies within the Group have provided the following guarantees:
Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

	2002 Rm	2003 Rm	**2004 Rm**
37. Commitments			
Capital commitments authorised	7,077	6,974	**7,151**
Fixed-line	4,932	4,977	**4,566**
Mobile	2,145	1,997	**2,585**
Commitments against authorised capital expenditure	810	435	**439**
Fixed-line	85	104	**88**
Mobile	725	331	**351**
Authorised capital expenditure not yet contracted	6,267	6,539	**6,712**
Fixed-line	4,847	4,873	**4,478**
Mobile	1,420	1,666	**2,234**

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

Capital commitments of the mobile segment was restated for the years ending March 31, 2002 and 2003 to include capital expenditure approved by the Board of Directors for the next financial year.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Operating lease commitments				
2004				
Buildings	**809**	**141**	**365**	**303**
Rental receivable on buildings	**(227)**	**(57)**	**(125)**	**(45)**
Transmission and data lines	**64**	**17**	**46**	**1**
Vehicles	**540**	**540**	**–**	**–**
Equipment	**37**	**23**	**14**	**–**
Sport and marketing contracts	**364**	**149**	**215**	**–**
Total	**1,587**	**813**	**515**	**259**
2003				
Buildings	1,011	171	452	388
Rental receivable on buildings	(274)	(47)	(162)	(65)
Transmission and data lines	15	4	11	–
Vehicles	719	719	–	–
Equipment	11	4	7	–
Sport and marketing contracts	228	123	105	–
Total	1,710	974	413	323
2002				
Buildings	675	195	271	209
Rental receivable on buildings	(188)	(35)	(102)	(51)
Vehicles	809	809	–	–
Equipment	35	17	18	–
Total	1,331	986	187	158

37. Commitments (continued)

Operating leases

The Group leases certain buildings, vehicles and equipment. The bulk of the lease terms negotiated for equipment-related premises are ten years with other leases signed for five years and three years. The bulk of non-equipment-related premises are for leases of three years to ten years. The majority of the leases normally contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 8% to 12%.

Penalties in terms of the lease agreements are only payable should Telkom vacate the premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note.

The master lease agreement for vehicles is for a period of five years, and expires on March 31, 2005. In accordance with the agreement Telkom is not allowed to lease any similar vehicle as specified in the contract from any other service provider during the five-year period. The current contract does not have a forced renewal option. Any continued involvement after March 31, 2005 will be renegotiated at the time of the expiry of the current contract. The contract is structured to have no lease increases on vehicles that are continually leased from the lessor. If a vehicle is however replaced by a new similar vehicle the lease payment is increased with a percentage increase based on the South African Consumer Index at the time. As there is no minimum usage clause in the master lease agreement, only the lease payments for the next year have been disclosed. The leases of individual vehicles are renewed annually.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Finance lease commitments				
2004				
Lease payments	**2,884**	**155**	**818**	**1,911**
Finance charges	**(1,687)**	**(167)**	**(642)**	**(878)**
Minimum lease payments	**1,197**	**(12)**	**176**	**1,033**
Present value of the liability	**1,086**			
Finance charges capitalised	**111**			
Liability as disclosed in Note 24	**1,197**			
2003				
Lease payments	2,889	109	748	2,032
Finance charges	(1,775)	(134)	(732)	(909)
Minimum lease payments	1,114	(25)	16	1,123
Present value of the liability	1,081			
Finance charges capitalised	33			
Liability as disclosed in Note 24	1,114			
2002				
Lease payments	2,550	54	292	2,204
Finance charges	(1,517)	(88)	(393)	(1,036)
Minimum lease payments	1,033	(34)	(101)	1,168
Present value of the liability	1,026			
Finance charges capitalised	7			
Liability as disclosed in Note 24	1,033			

Finance leases

A major portion of the finance lease relates to the sale and leaseback of the Group's buildings. The lease term negotiated for the building is for a period of 25 years ending in 2019. The minimum lease payments are subject to an annual escalation of 10%. Telkom has the right to sub-let part of the buildings. In case of a breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.

Finance charges accruing on the Group's building leases exceed the lease payments for the next five years. Minimum lease payments for the next five years do not result in any income accruing to the Group.

	2002 Rm	2003 Rm	**2004 Rm**
38. Contingencies			
Third parties	65	161	**70**
Guarantee of employee housing loans	208	192	**144**

Third parties
These amounts represent sundry disputes with third parties that are not individually significant. Telkom does not deem it probable that the outcomes of these disputes will lead to financial loss to the Group.

Guarantee of employee housing loans
Telkom guarantees a certain portion of employees' housing loans. The amount guaranteed differs depending on facts such as employment period and salary rates. When an employee leaves the employment of Telkom, any housing debt guaranteed by Telkom is settled before any pension payout can be made over to the employee. The maximum amount of the guarantee in the event of the default is as disclosed above.

Supplier dispute
Expenditure of R594 million was incurred up to March 31, 2002 for the development and installation of an integrated end-to-end customer assurance and activation system to be supplied by Telcordia. In the 2001 financial year, the agreement with Telcordia was terminated and in that year, the Company wrote off R119 million of this investment. Following an assessment of the viability of the project, the balance of the Telcordia investment was written off in the 2002 financial year. During March 2001, the dispute was taken to arbitration, where Telcordia was seeking approximately US$130 million plus interest at a rate of 15.50% per year for money outstanding and damages.
In September 2002, a partial ruling was issued by the arbitrator in favour of Telcordia. On November 5, 2002, Telkom brought an application in the High Court in South Africa to review and set aside the partial award. The hearing of the review application commenced on August 11, 2003. Judgement in Telkom's favour was handed down on November 27, 2003. Telcordia, however, brought an application for leave to appeal on April 28, 29 and 30, 2004. On May 3, 2004, the High Court dismissed the application by Telcordia and ordered Telcordia to pay the legal costs of Telkom, including the cost of two counsel. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial ruling, which petitioned Telkom has successfully resisted. Telcordia, however, have since filed a notice to appeal against the decision of the District Court of Columbia, which appeal was heard on April 1, 2004. The court dismissed the appeal by Telcordia on April 9, 2004. The dispute between Telkom and Telcordia and the amount of Telkom's liability are not expected to be finalised until late 2004 or early 2005. As Telkom no longer believes it has a probable obligation, it has provided US$Nil (March 31, 2003: US$44 million) for its estimate of liabilities, which include interest and legal fees.

Competition Commission
The South African Value Added Network Services Association ("SAVA"), an association of value added network service ("VANS") providers, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. Certain of the complaints have been referred to the Competition Tribunal by the Competition Commission for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, alleged refusal to lease access facilities to VANS providers, alleged discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers.

A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The Competition Commission has to date not imposed the maximum penalty.

Telkom has brought an application in the High Court in respect of the Competition Tribunal's jurisdiction to adjudicate this matter, on the basis that:
- the Competition Tribunal should not decide on the nature of Telkom's rights as contained in the Telecommunications Act, 1996 (as amended) as well as Telkom's various licences; and
- several of the complaints are already the subject of matters still pending at the Independent Communication Authority of South Africa ("ICASA"). Telkom argues that it is for the sectoral regulator, ICASA, to decide on the rights and obligations given to Telkom in terms of the Telecommunication Act and its PSTS licence.

Telkom is confident that it has not committed a prohibited practice as set out in the provisions of the Competitions Act as authorised by its PSTS licence. We do not expect the Competition Tribunal to adjudicate on this matter within the next two years.

	2002 Rm	2003 Rm	**2004 Rm**
38. Contingencies (continued)			
The Group exposure is 50% of the following items:			
Vodacom Congo (RDC) s.p.r.l.			
The Group has a 51% equity interest through Vodacom in Vodacom Congo (RDC) s.p.r.l., ("Vodacom Congo"), which commenced business on December 11, 2001.			
Vodacom, in terms of the shareholders' agreement, is ultimately responsible for the funding of the operations of Vodacom Congo. Currently Vodacom Congo is incurring losses which are expected to continue in the short term. The 49% portion attributable to the other joint venture partner in respect of the liabilities and losses as at March 31, 2004, 2003 and 2002 were as follows:			
Losses	(25)	(200)	**(15)**
Total liabilities	(59)	(816)	**(1,133)**
Total assets	427	658	**1,012**
Preference shares were reclassified from equity to liabilities in accordance with IAS39 – Financial Instruments: Recognition and Measurement (Revised 2000) ("IAS39") during the 2004 financial year. Accordingly the net liabilities, loss before taxation and net loss of the joint venture company as previously disclosed for the 2003 and 2002 financial years were restated.			
HGL Advertising Company Limited Vodacom Tanzania Limited is a defendant in a court case in the High Court of Tanzania in which the plaintiff, HGL Advertising Company Limited, is demanding compensation of US$9 million (Group share: US$5 million) for losses and damages allegedly incurred by them as a result of an illegal breach of contract. The facts of the case show there was no contract but rather a request to tender. The Company's legal counsel is of the opinion that the case has a very limited chance of success. Should the plaintiff be successful, no reliable estimate of the damages awarded can be estimated	–	70	**56**
Vodacom Satellite Services (Proprietary) Limited The functionality of the Gateway assets is under dispute and Vodacom Satellite Services (Proprietary) Limited and Vodafone Satellite Services Limited do not recognise the liability of US$1 million (Group share: US$0.5 million) to Globalstar LP. This amount has been written back to income in the 2002 year as the success of this claim is deemed to be remote.	15	8	**6**
Other matters	5	6	**9**
	20	84	**71**

39. Financial instruments and risk management

Concentration of risks

Telkom is a party to collective bargaining agreements with unions covering the employment terms and conditions of a significant number of its employees. Telkom employees primarily belong to the Communication Workers Union and the Alliance of Telkom Union. These employees are bound to follow the decisions of the unions. Telkom has a good working relationship with the unions and to date, there have been no significant disruptions to operations due to union activities.

Telkom has various commercial contracts with suppliers of goods and services which at a high level can be classified into IT, network, commercial (inclusive of outsourced entities), training and other. Risk reviews are conducted on a quarterly basis, while formal assessments are conducted on an annual basis. If specific risks are highlighted during a review, a formal assessment is conducted immediately. Risk exposure is evaluated against the following criteria:

- the value of the contract/Company spend to date;
- impact of supplier/service provider on key strategic initiatives of the Company;
- level/intensity of associated maintenance/support received from technology suppliers;
- the period that a specific technology has already been introduced into the network;
- the extent of customisation by the Company on standard technical functionality provided by supplier/service provider;
- level of foreign exposure in currency associated with the product/service offering; and
- inherent business and financial risk associated with a supplier.

Telkom is currently one of two holders of a licence to provide public switched telephony services within South Africa. The customer base is diverse and spread across the country. A licence has been awarded to the second network operator which is as yet not in operation. Telkom has embarked on a process of signing long-term contracts with significant customers.

Exposure to continuously changing market conditions has highlighted the importance of financial risk management as an element of control for the Group. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors.

The Group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments like trade receivables and payables, arise directly from the Group's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained profit, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts. The Group does not speculate in derivative instruments.

Interest rate risk management

Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as new borrowings and refinancing.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and variable rate debt. In order to manage this mix in a cost efficient manner, the Group makes use of interest rate derivatives as approved in terms of Group policy. Fixed rate debt represents approximately 86.89% (2003: 90.06%, 2002: 85.82%) of the total consolidated debt, after taking the instruments listed below into consideration. The debt profile of mainly fixed rate debt has been maintained to limit the Group's exposure to interest rate increases given the size of the Group's debt portfolio.

	Floating rate Rm	<1 year Rm	Fixed rate 1 – 5 years Rm	>5 years Rm	Total Rm
Interest rate repricing profile for interest-bearing debt:					
2004					
Borrowings	**2,196**	**2,316**	**9,403**	**2,839**	**16,754**
Percentage of borrowings	**13.11%**	**13.82%**	**56.13%**	**16.94%**	**100.00%**
2003					
Borrowings	2,208	4,366	12,906	2,732	22,212
Percentage of borrowings	9.94%	19.66%	58.10%	12.30%	100.00%
2002					
Borrowings	3,500	407	14,714	6,066	24,687
Percentage of borrowings	14.18%	1.65%	59.60%	24.57%	100.00%

39. Financial instruments and risk management (continued)

Borrowings do not include credit facilities utilised of R422 million (2003: R280 million, 2002: R822 million), which are floating rate debt.

The effective interest rate for the year was 15.14% (2003: 13.56%, 2002: 13.48%). At March 31, 2004 the Group did not have a significant interest rate risk exposure on financial assets.

In order to hedge specific exposures in the interest rate repricing profile of existing borrowings and peak additional borrowings, the Group makes use of interest rate derivatives as approved in terms of Group policy.

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

	Average maturity	Currency	Notional amount m	Weighted average coupon rate (%)
2004				
Interest rate swaps				
Pay fixed	**< 1 year**	**ZAR**	**150**	**12.92**
	1 – 5 years	**ZAR**	**1,000**	**14.67**
Receive fixed	**1 – 5 years**	**ZAR**	**56**	**9.99**
	> 5 years	**ZAR**	**62**	**9.82**
2003				
Interest rate swaps				
Pay fixed	1 – 5 years	ZAR	1,150	14.44
Receive fixed	> 5 years	ZAR	119	15.73
2002				
Interest rate swaps				
Pay fixed	< 1 year	ZAR	1,300	12.19
	1 – 5 years	ZAR	150	12.92
	> 5 years	ZAR	1,000	14.67
Receive fixed	> 5 years	ZAR	74	16.00

Pay fixed
The floating rate is based on the three months JIBAR, and is settled quarterly in arrears. The interest rate swaps cover refinancing price risk on the commercial paper bill programme.

Receive fixed
The Group swapped its fixed rate for a floating rate linked to the BA (Banker's Acceptance) rate plus a margin of between 2% and 2.25%.

Credit risk management

Other financial assets and liabilities

The risk arises from derivative contracts entered into with international financial institutions. The maximum exposure to the Group if no amounts were recovered at March 31, 2004 is a net favourable position of R853 million (2003: R1,390 million). No collateral is required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. The Group limits its exposure to any counterparty and exposures are monitored daily. The Group expects that all counterparties will meet their obligations.

Trade receivables

Credit limits are set on an individual and entity basis. Management reduces the risk of unrecoverable debt by improving credit management through credit vetting and stricter debt collection policies. Trade receivables comprise a large and widespread customer base, covering residential, business and corporate customer profiles. Credit checks are performed on all customers on application for new services, and on an ongoing basis where appropriate.

Liquidity risk management

The Group is exposed to liquidity risk as a result of uncertain trade receivable related cash flows as well as capital commitments of the Group. Liquidity risk is primarily managed by the Corporate Finance division in accordance with policies and guidelines formulated by the Operating Committee. In terms of its borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Group maintains a reasonable balance between the period assets generate funds and the period the respective assets are funded. Short-term liquidity gaps may be funded through repurchase agreements.

Available credit facilities not utilised at March 31, 2004 amounted to R2,995 million (Note 36).

39. Financial instruments and risk management (continued)

Negative working capital ratio

For each of the financial years ended 2002, 2003 and 2004 the Group had a negative working capital ratio. A negative working capital ratio arises when current liabilities are greater than the current assets. Current liabilities are intended to be financed from operating cash flows, new borrowings and borrowings available under existing credit facilities.

VM S.A.R.L call option

In terms of the shareholders' agreement, the Group's minority shareholder in VM S.A.R.L, Empresa Mocabicana De TelecommunicaVoes S.A.R.L ("Emotel") has a call option for a period of four years following the commencement date, August 23, 2003. In terms of the option, Emotel shall be entitled to call on Vodacom International Limited such number of shares in and claims on loan account against VM S.A.R.L as constitute 25% of the entire issued share capital of that Company. Emotel can exercise this option in full increments of 1%. The option can only be exercised on April 1 or October 1 of each calendar year for the duration of the option. The option price is specified in the shareholders' agreement. The call option has no value at March 31, 2004.

Smartphone SP (Proprietary) Limited put option

In terms of the shareholders agreement, the minority shareholders of Smartphone SP (Proprietary) Limited have a put option against Vodacom Group (Proprietary) Limited, should the Group or the Company terminate or fail to renew the Service Provider Agreement for any reason other than the expiry or cancellation of the Group's South African licence. The put option has no value at March 31, 2004.

Foreign currency exchange rate risk management

In respect of South African operations, the Group manages its foreign currency exchange rate risk by hedging, on a portfolio basis, all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

Cross currency swaps and forward exchange contracts have been entered into to reduce the foreign currency exposure on the Group's operations and liabilities. The Group also enters into forward exchange contracts to hedge interest expense and purchase and sale commitments denominated in foreign currencies (primarily US Dollars and Euro). The purpose of the Group's foreign currency hedging activities is to protect the Group from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

The table below reflects the currency and interest rate exposure of liabilities. Foreign currency debt is translated at the year-end exchange rates:

	Fixed rate Rm	Floating Rm	Interest-free Rm	Total Rm
Liabilities				
2004				
Currency				
ZAR	**10,611**	**1,991**	**13,042**	**25,644**
Dollar	**52**	**246**	**341**	**639**
Euro	**3,895**	**337**	**148**	**4,380**
Other	**–**	**44**	**19**	**63**
	14,558	**2,618**	**13,550**	**30,726**
2003				
Currency				
ZAR	15,619	1,844	11,372	28,835
Dollar	115	243	659	1,017
Euro	4,338	325	68	4,731
Other	–	76	28	104
	20,072	2,488	12,127	34,687
2002				
Currency				
ZAR	16,189	4,016	12,656	32,861
Dollar	–	171	351	522
Euro	4,998	135	675	5,808
Other	–	–	53	53
	21,187	4,322	13,735	39,244

Assets

There is no material foreign currency exposure for assets.

39. Financial instruments and risk management (continued)

Forward exchange contracts

The following contracts relate to specific items on the balance sheet or foreign commitments not yet due. Foreign commitments not yet due consist of capital expenditure ordered but not yet received and future interest payments and loans denominated in foreign currency.

	<1 year		1 – 5 years		>5 years	
	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm
Average maturity years currency						
2004						
Buy foreign currency and sell ZAR						
United States Dollar	**231**	**1,706**	**22**	**226**	**–**	**–**
Pound Sterling	**17**	**215**	**–**	**–**	**–**	**–**
Euro	**119**	**1,024**	**54**	**369**	**–**	**–**
Swedish Krona	**20**	**19**	**–**	**–**	**–**	**–**
Japanese Yen	**30**	**2**	**–**	**–**	**–**	**–**
		2,966		**595**		**–**
Buy ZAR and sell foreign currency						
United States Dollar	**81**	**613**	**43**	**446**	**–**	**–**
Pound Sterling	**7**	**84**	**–**	**–**	**–**	**–**
Euro	**45**	**383**	**–**	**–**	**–**	**–**
Swedish Krona	**17**	**16**	**–**	**–**	**–**	**–**
Japanese Yen	**25**	**2**	**–**	**–**	**–**	**–**
		1,098		**446**		**–**
Buy Euro and sell USD currency						
United States Dollar	11	95	–	–	–	–
		95		–		–
2003						
Buy foreign currency and sell ZAR						
United States Dollar	271	2,421	40	408	–	–
Pound Sterling	7	96	–	–	–	–
Euro	87	843	57	424	–	–
Swedish Krona	39	38	–	–	–	–
Swiss Franc	–	2	–	–	–	–
Japanese Yen	66	5	–	–	–	–
		3,405		832		–
Buy ZAR and sell foreign currency						
United States Dollar	56	551	51	522	–	–
Pound Sterling	4	58	–	–	–	–
Euro	31	314	–	–	–	–
Swedish Krona	12	14	–	–	–	–
Japanese Yen	34	3	–	–	–	–
		940		522		–
Buy Euro and sell USD currency						
United States Dollar	14	123	–	–	–	–

39. Financial instruments and risk management (continued)

	<1 year		1 – 5 years		>5 years	
	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm
2002						
Buy foreign currency and sell ZAR						
United States Dollar	447	4,836	61	596	–	–
Pound Sterling	6	108	2	26	–	–
Euro	134	1,341	62	489	–	–
Swedish Krona	18	21	–	–	–	–
Australian Dollar	1	2	–	–	–	–
Japanese Yen	34	3	–	–	–	–
		6,311		1,111		–
Buy ZAR and sell foreign currency						
United States Dollar	145	1,435	35	318	25	275
Pound Sterling	3	45	–	–	–	–
Euro	41	410	–	–	–	–
		1,890		318		275
Buy Euro and sell USD currency						
United States Dollar	35	342	–	–	–	–

	Average maturity	Receive	Average coupon	Pay	Average coupon
Currency swaps					
2004					
Receive fixed/pay fixed	**1 – 5 years**	**350 million EUR**	**7.13%**	**2,177 million ZAR**	**15.89%**
Receive fixed/pay floating	**1 – 5 years**	**100 million EUR**	**7.13%**	**630 million ZAR**	**JIBAR+2.30%**
2003					
Receive fixed/pay fixed	1 – 5 years	350 million EUR	7.13%	2,177 million ZAR	15.89%
Receive fixed/pay floating	1 – 5 years	100 million EUR	7.13%	630 million ZAR	JIBAR+2.30%
2002					
Receive floating/pay floating	< 1 year	220 million USD	LIBOR	1,400 million ZAR	JIBAR
Receive floating/pay floating	< 1 year	1,990 million ZAR	JIBAR	220 million USD	LIBOR
Receive fixed/pay fixed	1 – 5 years	350 million EUR	7.13%	2,177 million ZAR	15.89%
Receive fixed/pay floating	1 – 5 years	100 million EUR	7.13%	630 million ZAR	JIBAR

39. Financial instruments and risk management (continued)

Fair values of financial instruments

Fair value of all financial instruments noted in the balance sheet approximates carrying value except as disclosed below:

The estimated net fair values have been determined using available market information and appropriate valuation methodologies as outlined below:

	2002		2003		**2004**	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm	**Carrying amount Rm**	**Fair value Rm**
Liabilities						
Total interest-bearing debt	24,687	25,375	22,212	24,113	**16,754**	**18,896**
Derivatives (Note 15)						
Currency swap assets	2,411	2,411	1,269	1,269	**775**	**775**
Interest rate derivative assets	–	–	14	14	**18**	**18**
Interest rate derivative liabilities	(72)	(72)	(145)	(145)	**(159)**	**(159)**
Foreign exchange derivatives – asset	1,191	1,191	266	266	**265**	**265**
Foreign exchange derivatives – liabilities	(821)	(821)	(354)	(354)	**(334)**	**(334)**
	2,709	2,709	1,050	1,050	**565**	**565**

The fair values of borrowings are based on quoted prices or, where such prices are not available, the expected future payments discounted at market interest rates.

The fair values of derivatives are determined using quoted prices or where such prices are not available, discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivatives position at the balance sheet date.

	2002 R	2003 R	**2004 R**
Exchange rate table (closing rates)			
United States Dollar	11,440	8,010	**6,357**
Euro	9,996	8,676	**7,790**

40. Directors' interest

Ms Mtshotshisa, the Chairperson of the Board of Directors, serves on the Board of Directors of Admiral Industries (Proprietary) Limited, which has a contract to supply Telkom with workwear. Telkom paid R5,446,845 for the year ended March 31, 2004 for these services. The outstanding creditors balance at year-end was R128,730.

Mr Sekano, the employee representative on Telkom's Board, is Chairman of Letlapa Security and a director of Telesafe Security. Letlapa Security owns an interest in Telesafe Security, a security company that provides physical security services to Telkom. Telkom paid R39,328,027 to Telesafe Security for the year ended March 31, 2004 for these services. The outstanding creditors balance at year-end was R3,367,354.

Mr Valkin, one of Telkom's Board members, is a senior partner with the South African law firm of Bowman Gilfillan Inc., which provides legal services to Telkom from time to time. Telkom paid R90,000 to Bowman Gilfillan Inc. in the year ended March 31, 2004 for these services.

Messrs McKenzie, Klug Sr, Valkin, Khai Tan and Tan Sri Dato'Ir. Md. Radzi, five of Telkom's Board members, are Thintana Communications' representatives on Telkom's Board of Directors.

Messrs Mtshotshisa, Menell, Moyo, Sekano and Vilakazi, five of Telkom's Board members, are the Government's representatives on Telkom's Board of Directors.

40. Directors' interest (continued)

Directors' shareholding

	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
2004				
Executive – SE Nxasana	**373**	**223**	**446**	**223**
Non-executive	**–**	**–**	**–**	**16,700,276**
NE Mtshotshisa	**–**	**–**	**–**	**88**
MP Moyo*	**–**	**–**	**–**	**16,700,000**
TG Vilakazi	**–**	**–**	**–**	**188**
Total	**373**	**223**	**446**	**16,700,499**
2003				
Executive – SE Nxasana	223	223	446	223
Non-executive	–	–	–	33,411,231
NE Mtshotshisa	–	–	–	88
MP Moyo*	–	–	–	16,700,000
TA Sekano*	–	–	–	16,710,955
TG Vilakazi	–	–	–	188
Total	223	223	446	33,411,454

* The shares are beneficially owned by Old Mutual and Ucingo of which MP Moyo and TA Sekano are directors respectively.

The directors' shareholding did not change between the balance sheet date and the date of issue of the financial statements.

	2002 Rm	2003 Rm	**2004 Rm**
Directors' emoluments	59	60	**48**
Executive For other services	58	59	**47**
Non-executive For services as directors	1	1	**1**

40. Directors' interest (continued)

Directors' emoluments

	Fees R	Remune-ration R	Perform-ance bonus R	Fringe and other benefits R	Manage-ment Company R	Total R
2004						
Emoluments per director:						
Non-executive	**1,292,166**	**–**	**–**	**–**	**–**	**1,292,166**
NE Mtshotshisa	**666,666**	**–**	**–**	**–**	**–**	**666,666**
RP Menell	**108,000**	**–**	**–**	**–**	**–**	**108,000**
TA Sekano	**96,000**	**–**	**–**	**–**	**–**	**96,000**
TG Vilakazi	**108,000**	**–**	**–**	**–**	**–**	**108,000**
CL Valkin	**108,000**	**–**	**–**	**–**	**–**	**108,000**
MP Moyo†	**115,500**	**–**	**–**	**–**	**–**	**115,500**
Tan Sri Dato'Ir. Md. Radzi Mansor	**90,000**	**–**	**–**	**–**	**–**	**90,000**
Executive	**–**	**1,864,845**	**8,200,991**	**1,074,730**	**35,600,612**	**46,741,178**
SE Nxasana*	**–**	**1,864,845**	**8,200,991**	**1,074,730**	**–**	**11,140,566**
SM McKenzie††	**–**	**–**	**–**	**–**	**11,224,756**	**11,224,756**
AJ Lewis††	**–**	**–**	**–**	**–**	**5,517,295**	**5,517,295**
JB Gibson†† (alternate)	**–**	**–**	**–**	**–**	**6,867,629**	**6,867,629**
B Manning†† (alternate)	**–**	**–**	**–**	**–**	**6,241,497**	**6,241,497**
C Khai Tan†††	**–**	**–**	**–**	**–**	**5,749,435**	**5,749,435**
Total emoluments – Paid by Telkom	**1,292,166**	**1,864,845**	**8,200,991**	**1,074,730**	**35,600,612**	**48,033,344**
2003						
Emoluments per director:						
Non-executive	1,106,689	–	–	–	–	1,106,689
E Molobi	66,667	–	–	–	–	66,667
NE Mtshotshisa	400,000	–	–	–	–	400,000
WYN Luhabe	42,040	–	–	–	–	42,040
WE Lucas-Bull**	27,446	–	–	–	–	27,446
RP Menell	75,040	–	–	–	–	75,040
CBC Smith	51,540	–	–	–	–	51,540
TA Sekano	84,540	–	–	–	–	84,540
TG Vilakazi	60,020	–	–	–	–	60,020
CL Valkin	84,540	–	–	–	–	84,540
MP Moyo†	93,040	–	–	–	–	93,040
D Mji	59,670	–	–	–	–	59,670
Tan Sri Dato'Ir. Md. Radzi Mansor	62,146	–	–	–	–	62,146
Executive	–	1,558,539	1,723,801	747,792	55,024,671	59,054,803
SE Nxasana*	–	1,558,539	1,723,801	747,792	–	4,030,132
SM McKenzie††	–	–	–	–	10,757,714	10,757,714
TM Barry††	–	–	–	–	4,591,545	4,591,545
AJ Lewis††	–	–	–	–	15,349,259	15,349,259
JB Gibson††	–	–	–	–	8,488,307	8,488,307
MD Kerckhoff††	–	–	–	–	6,300,576	6,300,576
C Khai Tan†††	–	–	–	–	6,751,196	6,751,196
JM Rajaratnam†††	–	–	–	–	1,393,037	1,393,037
S Manickam†††	–	–	–	–	1,393,037	1,393,037
Total emoluments – Paid by Telkom	1,106,689	1,558,539	1,723,801	747,792	55,024,671	60,161,492

40. Directors' interest (continued)

Directors' emoluments (continued)

2002
Emoluments per director:

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Management Company R	Total R
Non-executive	668,048	–	–	–	–	668,048
E Molobi	147,856	–	–	–	–	147,856
ED Moseneke	70,000	–	–	–	–	70,000
WYN Luhabe	52,690	–	–	–	–	52,690
WE Lucas-Bull**	56,320	–	–	–	–	56,320
RP Menell	47,560	–	–	–	–	47,560
CBC Smith	50,560	–	–	–	–	50,560
TA Sekano	24,232	–	–	–	–	24,232
CL Valkin	51,730	–	–	–	–	51,730
MP Moyo†	35,312	–	–	–	–	35,312
D Mji	52,190	–	–	–	–	52,190
SV Zilwa	13,258	–	–	–	–	13,258
Tan Sri Dato'Ir. Md. Radzi Mansor	66,340	–	–	–	–	66,340
Executive	–	1,375,441	447,000	536,000	55,630,905	57,989,346
SE Nxasana*	–	1,375,441	447,000	536,000	–	2,358,441
TM Barry††	–	–	–	–	15,528,453	15,528,453
AJ Lewis††	–	–	–	–	15,528,453	15,528,453
MD Kerckhoff††	–	–	–	–	8,635,189	8,635,189
JM Rajaratnam†††	–	–	–	–	7,969,405	7,969,405
S Manickam†††	–	–	–	–	7,969,405	7,969,405
Total emoluments – Paid by Telkom	668,048	1,375,441	447,000	536,000	55,630,905	58,657,394

* Included in remuneration is a pension contribution for SE Nxasana of R242,430 (2003: R179,301) paid to the Telkom Retirement Fund.
** Paid to FirstRand Retail.
† Paid to Old Mutual Life Assurance Company.
†† Paid to SBC Communications for services rendered by directors included in consultancy services – managerial fees.
††† Paid to Telekom Malaysia for services rendered by directors included in consultancy services – managerial fees.

	2002 Rm	2003 Rm	**2004 Rm**

41. Segment information

The inter-company transactions are reflected as net and are thus eliminated against segment results.

Business segment

	2002 Rm	2003 Rm	**2004 Rm**
Consolidated revenue	34,087	37,507	**40,795**
Fixed-line	27,866	29,542	**30,906**
To external customers	27,496	29,106	**30,443**
Inter-company	370	436	**463**
Mobile	8,075	9,890	**11,739**
To external customers	6,591	8,401	**10,352**
Inter-company	1,484	1,489	**1,387**
Elimination	(1,854)	(1,925)	**(1,850)**
Other income	143	233	**98**
Fixed-line	127	198	**73**
Mobile	16	35	**25**
Operating expenses	30,039	31,226	**31,805**
Fixed-line	25,568	25,392	**24,508**
Mobile	6,275	7,759	**9,147**
Elimination	(1,804)	(1,925)	**(1,850)**
Consolidated operating profit	4,191	6,514	**9,088**
Fixed-line	2,425	4,348	**6,471**
Mobile	1,816	2,166	**2,617**
Elimination	(50)	–	**–**
Consolidated investment income	512	424	**479**
Fixed-line	839	730	**1,481**
Mobile	16	36	**59**
Elimination	(343)	(342)	**(1,061)**
Consolidated finance charges	2,550	4,154	**3,264**
Fixed-line	2,557	3,758	**2,991**
Mobile	36	438	**284**
Elimination	(43)	(42)	**(11)**
Consolidated taxation	873	1,049	**1,711**
Fixed-line	278	449	**849**
Mobile	595	600	**862**
Minority interest	59	105	**69**
Fixed-line	44	48	**56**
Mobile	15	57	**13**
Net profit for the year	1,221	1,630	**4,523**
Fixed-line	335	823	**4,056**
Mobile	1 186	1 107	**1,517**
Elimination	(300)	(300)	**(1 050)**

	2002 Rm	2003 Rm	2004 Rm
41. Segment information (continued)			
Consolidated assets	50,528	49,995	**50,160**
Fixed-line	43,588	42,332	**41,441**
Mobile	7,531	8,254	**9,761**
Elimination	(591)	(591)	**(1,042)**
Investments	888	1,187	**1,735**
Fixed-line	1,199	1,448	**1,466**
Mobile	149	199	**269**
Elimination	(460)	(460)	**–**
Other financial assets	2,819	1,771	**1,089**
Fixed-line	2,706	1,740	**1,070**
Mobile	113	31	**19**
Tax assets – Fixed-line	1,081	276	**–**
Total assets	55,316	53,229	**52,984**
Consolidated liabilities	13,471	11,731	**13 019**
Fixed-line	10,804	9,104	**9,349**
Mobile	3,408	3,218	**4,712**
Elimination	(741)	(591)	**(1,042)**
Interest-bearing debt	24,687	22,212	**16,754**
Fixed-line	23,681	21,128	**15,724**
Mobile	1,466	1,544	**1,030**
Elimination	(460)	(460)	**–**
Other financial liabilities	–	567	**493**
Fixed-line	–	467	**461**
Mobile	–	100	**32**
Tax liabilities	193	177	**460**
Fixed-line	17	20	**34**
Mobile	176	157	**426**
Total liabilities	38,351	34,687	**30,726**
Other segment information			
Capital expenditure for property, plant and equipment	9,004	5,712	**5,307**
Fixed-line	6,962	4,013	**3,862**
Mobile	2,042	1,699	**1,445**
Capital expenditure for intangible assets	97	14	**61**
Fixed-line	–	14	**–**
Mobile	97	–	**61**
Depreciation and amortisation	5,408	6,293	**6,899**
Fixed-line	4,373	5,105	**5,633**
Mobile	1,035	1,188	**1,266**
Impairment and asset write-offs – Fixed-line	445	189	**350**
Goodwill impaired – Fixed-line	–	16	**–**
Restructuring costs – Fixed-line	373	244	**302**

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for the three years ended March 31, 2004

	2002 Rm	2003 Rm	**2004 Rm**
41. Segment information (continued)			
Geographical segment			
Consolidated revenue	34,087	37,507	**40,795**
South Africa	33,720	36,936	**40,053**
Other African countries	370	618	**748**
Elimination	(3)	(47)	**(6)**
Consolidated operating profit	4,191	6,514	**9,088**
South Africa	4,153	6,519	**9,124**
Other African countries	41	(2)	**(33)**
Elimination	(3)	(3)	**(3)**
Consolidated assets	55,316	53,229	**52,984**
South Africa	54,367	52,584	**52 499**
Other African countries	1,002	1,216	**1,691**
Elimination	(53)	(571)	**(1,206)**
Other segment information			
Capital expenditure for property, plant and equipment	9,004	5,712	**5,307**
South Africa	8,510	5,256	**4,691**
Other African countries	494	456	**616**

"South Africa", which is also the country of domicile for Telkom SA Limited, comprises the segment information relating to Telkom SA Limited and its subsidiaries as well as Vodacom's South African-based mobile communications network, the segment information of its service providers and its other business segments.

"Other African countries" comprises only Vodacom's mobile communications networks in Tanzania, Lesotho and the Democratic Republic of Congo.

42. Related parties

Related party relationships exist within the Group. During the year all transactions were concluded at arm's length. Details of material transactions and balances with related parties not disclosed elsewhere in the financial statements were as follows:

	2002 Rm	2003 Rm	**2004 Rm**
With joint venture			
Vodacom Group (Proprietary) Limited			
Related party balances			
Trade receivable	41	35	**42**
Trade payable	(272)	(253)	**(250)**
Related party transactions			
Income	(370)	(435)	**(463)**
Expenses	1,484	1,489	**1,387**
Audit fees – IPO related fees	–	14	**3**
IPO costs	–	25	**–**
Interest received	(36)	(42)	**(11)**
With shareholders			
Thintana Communications LLC			
Management fees	396	273	**154**
Government			
Revenue	1,384	1,606	**1,866**
Trade receivable	134	193	**189**
Employees			
Other receivables	170	126	**114**

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for the three years ended March 31, 2004

43. Interest in significant subsidiaries

Country of incorporation: RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MAU – Mauritius, MZ – Mozambique.

Nature of business: C – Cellular; S – Satellite; INV – Investment holding company; PROP – Property company; OTH – Other.

* Dormant at March 31, 2004.

		Issued share capital			Interest in issued ordinary share capital		
	Country of incorporation	2002	2003	**2004**	2002 %	2003 %	**2004 %**
Directory advertising							
Telkom Directory Services (Proprietary) Limited	RSA	R100,000	R100,000	**R100,000**	54.9	64.9	**64.9**
Data application services							
Swiftnet (Proprietary) Limited	RSA	R50,000,000	R50,000,000	**R50,000,000**	100	100	**100**
Rossal No. 65 (Proprietary) Limited	RSA	–	–	**R100**	–	–	**100**
The aggregate net profit of the three subsidiaries is R180 million (2003: R144 million, 2002: R117 million).							
Vodacom has interest in the following companies (Group share: 50% of the interest in ordinary share capital as indicated):							
Cellular network operators							
Vodacom (Proprietary) Limited (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Lesotho (Proprietary) Limited (C)	LES	M4,180	M4,180	**M4,180**	88.3	88.3	**88.3**
Vodacom Tanzania Limited (C)	TZN	US$100	US$100	**US$100**	65	65	**65**
Vodacom Mozambique S.A.R.L. (C)	MZ	–	–	**MZM5,005,500**	–	–	**98**
Service providers							
Vodacom Service Provider Holdings (Proprietary) Limited (INV)	RSA	R1,020	R1,020	**R1,020**	100	100	**100**
Vodacom Service Provider Company (Proprietary) Limited (C)	RSA	R20	R20	**R20**	100	100	**100**
Vodacom Satellite Services (Proprietary) Limited previously known as Globalstar Southern Africa (Proprietary) Limited* (S)	RSA	R100	R100	**R100**	100	100	**100**
Vodac (Proprietary) Limited*	RSA	R1	R1	**–**	100	100	**–**
GSM Cellular (Proprietary) Limited* (C)	RSA	R1,200	R1,200	**R1,200**	100	100	**100**
Smartphone SP (Proprietary) Limited (C)	RSA	–	–	**R20,000**	–	–	**51**

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for the three years ended March 31, 2004

43. Interest in significant subsidiaries (continued)

	Country of incorporation	Issued share capital 2002	2003	**2004**	Interest in issued ordinary share capital 2002 %	2003 %	**2004 %**
Other significant subsidiaries							
Vodacom Venture No. 1 (Proprietary) Limited previously known as Teljoy Holdings Limited (INV)	RSA	R158,999	R158,999	**R158,999**	100	100	**100**
Vodacom Equipment Company (Proprietary) Limited*	RSA	R100	R100	**R100**	100	100	**100**
Vodacare (Proprietary) Limited* (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom International Holdings (Proprietary) Limited (INV)	RSA	R100	R100	**–**	100	100	**–**
Vodacom International Limited (INV)	MAU	US$100	US$100	**–**	100	100	**–**
Vodacom Properties No. 1 (Proprietary) Limited* previously known as Skyprop 157 (Proprietary) Limited (PROP)	RSA	–	R100	**R100**	–	100	**100**
Stand 13 Eastwood Road Dunkeld West (Proprietary) Limited (PROP)	RSA	–	–	**R100**	–	–	**100**
Ithuba Smartcall (Proprietary) Limited* (OTH)	RSA	–	–	**R100**	–	–	**52**

		2002 Rm	2003 Rm	**2004 Rm**
Indebtedness of Telkom Joint Venture and subsidiary companies				
Vodacom Group (Proprietary) Limited	RSA	460	460	**–**
Telkom Directory Services (Proprietary) Limited	RSA	5	–	**–**
Swiftnet (Proprietary) Limited	RSA	56	47	**18**
Intekom (Proprietary) Limited	RSA	29	24	**17**
Q-Trunk (Proprietary) Limited	RSA	49	50	**40**
Rossal No. 65 (Proprietary) Limited	RSA	–	–	**249**

	2002 Rm	2003 Rm	**2004 Rm**
44. Investments in joint ventures			
Vodacom Group (Proprietary) Limited			
Telkom owns 5,000 shares of 1 cent each at cost. This amounts to a 50% shareholding in Vodacom Group (Proprietary) Limited.			
The Group's proportionate share of Vodacom's assets and liabilities is as follows:			
Total assets	7,679	8,408	**10,049**
Non-current assets	5,607	6,063	**6,597**
Current assets	2,072	2,345	**3,452**
Total liabilities and reserves	(7,219)	(7,948)	**(10,049)**
Reserves	(2,732)	(3,419)	**(3,802)**
Minority interests	(5)	(44)	**(46)**
Non-current liabilities	(949)	(1,362)	**(1,195)**
Current liabilities	(3,533)	(3,123)	**(5,006)**
Loan from joint venture partners	460	460	**–**
The Group's proportionate share of revenue and expense is as follows:			
Revenue	8,075	9,890	**11,739**
Net operation expenses	(6,243)	(7,688)	**(9,122)**
Profit before net financing charges	1,832	2,202	**2,617**
Net financing charges	(36)	(438)	**(225)**
Net income before taxation	1,796	1,764	**2,392**
Taxation	(595)	(600)	**(863)**
Profit after taxation	1,201	1,164	**1,529**
Minority interest	(15)	(56)	**(13)**
Net profit for the year	1,186	1,108	**1,516**
The Group's proportionate share of cash flow is as follows:			
Cash flow from operating activities	1,908	2,171	**2,395**
Cash flow from investing activities	(2,272)	(1,622)	**(1,500)**
Cash flow from financing activities	285	259	**(398)**
Net (decrease)/increase in cash and cash equivalents	(79)	808	**497**
Effect of exchange rate on cash and cash equivalents	48	(56)	**(21)**
Cash and cash equivalents at beginning of year	(398)	(429)	**323**
Cash and cash equivalents at end of year	(429)	323	**799**

Vodacom's joint ventures during 2002 included Vodacom World Online (Proprietary) Limited and Vodacom Congo. Effective November 30, 2001, Vodacom disposed of the interest in Vodacom World Online (Proprietary) Limited. Details of the disposal are presented in Note 34. The Group acquired its interest in Vodacom Congo on December 11, 2001.

45. Subsequent events

Smartphone SP (Proprietary) Limited

Smartphone SP (Proprietary) Limited offered to purchase a 85.75% equity stake in Smartcom (Proprietary) Limited for R77.2 million. All suspensive conditions contained in the sale of shares agreement were met on April 16, 2004.

Dividends

The Telkom Board has declared a dividend of R613 million on June 3, 2004, which will decrease deferred taxation on STC credits by R77 million.

The Board aims to pay a progressively increasing dividend annually. The level of dividend will be based upon a number of factors, including the assessment of financial results, the Company's debt level, interest coverage and future expectations, including internal cash flows.

Other matters

Effective April 1, 2004 Vodacom International Limited ("VIL") entered into a five-year management agreement with VEE Networks Limited ("VEE") (formerly Econet Wireless Nigeria Limited), subject to rights of termination in favour of each of the parties. In terms of the agreement, VIL would have managed VEE's cellular network operations in Nigeria for a fee which is based on VEE's turnover. VEE would have been allowed to use the Vodacom logo and brand name. VIL also had the intention to acquire an equity stake in the business of VEE.

However, on May 31, 2004 VIL and VEE mutually agreed to terminate the management agreement entered into on April 1, 2004. VIL will continue to provide technical support to VEE for a period of up to six months. VIL has also decided not to pursue an equity stake in the business of VEE.

The Group is further also a defendant in certain legal proceedings related to its activities in Nigeria. The outcome or extent of any claims against the Group, should the Group not be successful in defending these claims, is unknown.

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

46. New International Financial Reporting Standards ("IFRS") accounting pronouncements

During December 2003, the International Accounting Standards Board ("IASB") issued the Improvements Project to current International Financial Reporting Standards ("The Improvements Project"). These changes are effective for annual periods commencing after January 1, 2005. Entities are required to adopt all changes to a current standard at the same time, but can elect to adopt selective standards in different periods, provided that all standards are adopted by the annual period commencing on or after January 1, 2005. None of these have been early adopted.

The Improvements Project prescribes the following main changes to existing statements:

IAS1 – Presentation of Financial Statements

The amendment to IAS1 requires the separate presentation of current and non-current assets and liabilities on the face of the balance sheet, and indicates that presentation on a liquidity basis is only to be used when such a presentation provides information that is reliable and more relevant. The classification of debt at the balance sheet date should also not consider post-balance sheet refinancing, amendments or waivers. The amendment further prohibits any expense and income items to be disclosed as "extraordinary". Additional disclosure required by IAS1 includes the key assumptions about the future, and other sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

46. New International Financial Reporting Standards ("IFRS") accounting pronouncements (continued)

IAS2 – Inventory

The last-in, first-out (LIFO) method of measuring the cost of inventories will no longer be allowed under the amended IAS2. Separate accounting is required for finance cost of inventories acquired with deferred settlement terms. The difference between the purchase price for normal credit terms and the amount paid will need to be recognised as interest expense over the period of the financing. Exchange differences on acquisition of inventories invoiced in a foreign currency will also no longer be included in the cost of inventories.

IAS8 – Accounting Policies, Changes in Accounting Estimates and Errors

The current allowed alternative of recognising the cumulative effect of voluntary changes in accounting policies and corrections of errors in the current period, is no longer available under the amended IAS8. More detailed disclosure is also required including disclosure of impending changes in accounting policies when an entity has yet to implement a new standard or interpretations that has been issued, but has not yet come into effect. The distinction between fundamental and other material errors has been eliminated.

IAS10 – Events After Balance Sheet Date

The new standard clarifies that if an entity declares a dividend after the balance sheet date, the entity should not recognise those dividends as a liability at the balance sheet date. Such dividends should only be disclosed in the notes to the financial statements in accordance with IAS1.

IAS15 – Information Reflecting the Effect of Changing Prices has been withdrawn.

IAS16 – Property, Plant and Equipment

The new standard clarifies that an entity should consider an item of property, plant and equipment as a combination of various units of measure with separate useful lives or consumption patterns. These separate lives are used to calculate depreciation, test for derecognition and for the treatment of expenditure to replace or renew a component of that item of property, plant and equipment. It further confirms that the cost of an item of property, plant and equipment should include not only the initial estimate of the costs relating to dismantlement, removal or restoration of the property at the time of installing the item, but also during the period of use for purposes other than producing inventory. The residual value and useful life of an asset must be reviewed annually. Residual value should not include expected future inflation. There is no cessation of depreciation when assets are idle.

IAS17 – Leases

Based on the amendment a lease of land and buildings is required to be split into two elements – a lease of the land and a separate lease of the buildings. All initial direct costs incurred by a lessor in negotiating a finance lease need to be included in the initial measurement of the finance lease receivables. Initial direct cost incurred by lessors in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income. This standard provides special transitional provisions, with retrospective application under certain circumstances not required.

IAS21 – The Effects of Changes in Foreign Exchange Rates

The revised IAS21 incorporates the guidance previously included in SIC19 – Reporting Currency – Measurement and Presentation of Financial Statements Under IAS21 and IAS29 and SIC30 – Reporting Currency – Translation from Measurement Currency to Presentation Currency. It has also eliminated the distinction between a foreign operation that is integral to the operations of the reporting entity and foreign entities and now requires the goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity to be translated at the closing rate.

IAS24 – Related Party Disclosure

The revised standard now explicitly requires the disclosure of compensation of key management personnel (which now includes non-executive directors). Disclosure of related party transactions including the terms and conditions, securing of outstanding balances, the nature of the consideration payable on settlement, details of any guarantees and provision for doubtful debt are also required. Parent companies, investors, venturers and state-controlled entities are no longer exempt from providing related party disclosures in their separate financial statements. The scope of the revised standard is extended to include, amongst others, close family members of key management personnel of the entity or its parent.

IAS27 – Consolidated and Separate Financial Statements

The use of the equity method of accounting by a parent in its separate financial statements is prohibited in the amended statement. A newly acquired subsidiary can be excluded from consolidation only if the control is intended to be temporary and management is actively seeking a buyer. All Group companies will now be forced to use uniform accounting policies as the current impracticability exception has been removed from the revised statement. Minority interest will also in future need to be disclosed as part of equity, separately from the parent shareholders' equity.

46. New International Financial Reporting Standards ("IFRS") accounting pronouncements (continued)

IAS28 – Accounting for Investments in Associates

The revised standard modifies the guidance previously in SIC20 – Equity Accounting Method – Recognition of Losses by including other long-term interests that form part of the investor's net investment in the associate when recognising an investor's share of losses. Interests to be considered do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists.

IAS31 – Interest in Joint Ventures

The Standard provides exemptions from application of proportionate consolidation or the equity method similar to those provided for certain parents not to prepare consolidated financial statements. The Standard does not require the proportionate consolidation or the equity method to be applied when an interest in a joint venture is acquired and held with a view to its disposal within twelve months of acquisition. When such an investment is not disposed of with in twelve months, it must be accounted for using the proportionate consolidation or the equity method as from date of acquisition. The exclusion from applying proportionate consolidation or the equity method when the joint venture is operating under severe long-term restrictions is no longer permitted.

IAS33 – Earnings per share

The revised standard incorporates the guidance of SIC24 – Earnings per Share – Financial Instruments and Other Contracts that May be Settled in Shares and provides additional guidance on the treatment of selected issues. Additional disclosure is also required, including separate presentation of basic and diluted amounts per share from discontinuing and continuing operations.

IAS40 – Investment Property

A property interest that is held by a lessee under an operating lease that meets the definition of investment property may be treated as investment property if the operating lease is accounted for as if it were a finance lease in accordance with IAS17, and the lessee uses the fair value model in terms of IAS40.

The Group is currently assessing the impact of the adoption of the Improvements Project, but has not quantified the impact of adopting the revisions to the current Standards.

During February 2004, the IASB issued IFRS2 – Share-based Payment ("IFRS2")

IFRS2 is effective for annual periods beginning on or after January 1, 2005. In terms of the standard, all share based payment transactions must be recognised in the financial statements using a fair value measurement basis. An expense is recognised when the goods or services received are consumed. It requires the fair value of all equity instruments granted in an equity-settled share based transaction with employees to be based on market prices, if available, and to take into account the terms and conditions upon which those instruments were granted. In the absence of market prices, fair value is estimated using valuations techniques to estimate what the price of those equity instruments would have been on measurement date in an arm's length transactions between knowledgeable, willing parties. The Group has not completed its assessment of the possible impact that IFRS2 will have on its results.

On March 31, 2004, The IASB issued IFRS3 – Business Combinations ("IFRS3"), IAS36 – Impairment of Assets (revised) ("IAS36") and IAS38 – Intangible assets (revised) ("IAS38")

IFRS3 is effective for business combinations agreed to on or after March 31, 2004, and for previously recognised goodwill or negative goodwill. IFRS3 requires all business combinations to be accounted for using the purchase method, and in applying this method, an acquirer provisions for future losses or restructuring costs are not recognised, but rather recorded as post-acquisitions expenses. Probability of future economic benefits is assumed for intangibles acquired in a business combination. Intangibles acquired in a business combination must be recognised as a separate asset from goodwill if it meets the definition of an asset and can be measured reliably. All contingent liabilities acquired should be recorded at its fair value.

Goodwill acquired in a business combination must not be amortised, but tested for impairment on an annual basis in terms of the revised IAS36. All negative goodwill recognised must be recorded immediately as a gain in the income statement. Reversals of impairment losses related to goodwill are prohibited and additional guidance on measuring impairment is provided.

In terms of IAS36 an annual impairment test is required for intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill acquired in a business combination. Under certain circumstances the estimate of the recoverable amount used in the preceding financial period may be used. All goodwill should be allocated to the acquirers' cash-generating units that are expected to benefit from the synergies of the business combination.

IAS38 states that the probability recognition criterion will always be satisfied for intangibles acquired separately or in a business combination. Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually.

The Group is in the process of assessing the impact of IFRS3, IAS36 and IAS38 on its results.

46. New International Financial Reporting Standards ("IFRS") accounting pronouncements (continued)

IFRS5 – Non-current Assets Held for Sale and Discontinued Operations ("IFRS5") was issued on March 31, 2004 and replaces IAS35 – Discontinuing Operations.

IFRS5 establishes a classification for non-current assets "held for sale" using the same criteria as those contained in FASB Statement 144 – Accounting for the Impairment or Disposal of Long-Lived Assets. In general, to be classified as held for sale, an asset must be available for immediate sale in its present condition subject only to terms that are usual or customary for sales, the sale of the assets must be highly probable and the transfer must be expected to qualify for recognition as a completed sale within one year, with limited exceptions. Assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value, less costs to sell. An entity is not allowed to depreciate an asset classified as held for sale or an asset that is included in a disposal group held for sale.

IFRS5 changes the timing of the classification as a discontinued operation. Under IFRS5, an operation is classified as discontinued at the date the entity has actually disposed of the operation, or when the operation meets the criteria to be classified as held for sale. IFRS5 is effective for periods commencing on or after January 1, 2005. The Group has not completed its assessment of the possible impact that IFRS5 will have on its results.

On March 31, 2004, the IASB issued the "macro hedging" and "prospective effectiveness test" amendment to IAS39 – Financial Instruments: Recognition and Measurement ("IAS39"). The amendment to "macro hedging" enables fair value hedge accounting to be used more readily for a portfolio hedge of interest risk – a macro hedge – than under the current version of IAS39 that the IASB published in December 2003. The amendment is effective for annual periods commencing on or after January 1, 2005. The relaxation of the "prospective effectiveness test" from "almost fully offset" to "highly effective" should better enable entities to meet the hedge criteria. The Group is in the process of assessing the impact on its results.

Revised IAS32 and IAS39 – Financial Instruments: Presentation and Disclosure and Financial Instruments: Recognition and Measurement

There have been numerous changes to accounting for financial instruments and hedge accounting. Amongst other the statement permits entities to designate financial liabilities or assets on initial recognition or transition of the statement as to be measured at fair value, the originated loans and receivables category is renamed as loans and receivables to include purchased loans and receivables that are not quoted in an active market and additional guidance is provided about how to evaluate impairment that is inherent to a group of financial assets. The revised standards will be effective to Telkom for the March 31, 2006 financial period. Earlier application is permitted.

IFRIC Interpretation 1 – Changes in Existing Decommissioning, Restoration and Similar Liabilities

On May 27, 2004 the first IFRIC Interpretation was issued. The Interpretation is effective for annual periods beginning on or after September 1, 2004, but earlier application is encouraged. Under IFRIC 1 the effect of any changes to an existing obligation must be added to or deducted from the cost of the related asset and depreciated prospectively over the asset's useful life.

47. US GAAP information

Differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles

The consolidated financial statements of Telkom SA Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which differ in certain respects from accounting principles generally accepted in the United States ("US GAAP"). Application of US GAAP would have affected the balance sheet as of March 31, 2004, 2003 and 2002 and net income for each of the three years in the periods ended March 31, 2004 to the extent described below. A description of the material differences between IFRS and US GAAP as they relate to the Group, as well as its equity accounted investment in Vodacom, are discussed in further detail below.

*The United States Dollar ("US$") amounts shown in the footnotes have been translated at March 31, 2004 and for the year ended March 31, 2004 from South African Rand ("ZAR") only as a matter of arithmetic computation at the South African exchange rate of ZAR6.32 = US$1, the buying rate on March 31, 2004, the last business day prior to the date of our most recent balance sheet included in this submission. These amounts are unaudited and are included for the convenience of the reader only. Such translation should not be construed as a representation that the South African Rand amounts have been or could be converted into US Dollars at this or any other rate.

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP information (continued)				
Net income and equity in accordance with US GAAP				
The following schedule illustrates the significant adjustments to reconcile net income in accordance with IFRS to the amounts determined in accordance with US GAAP for each of the three years ended March 31, 2004, 2003 and 2002.				
Net income according to IFRS	1,221	1,630	**4,523**	**715**
US GAAP adjustments – Telkom:				
a) Revenue recognition	29	77	**98**	**15**
b) Sale and leaseback transaction	95	89	**94**	**15**
c) Preliminary listing costs	(44)	44	**–**	**–**
d) Derivative financial instruments	90	83	**82**	**13**
e) Goodwill	15	42	**25**	**4**
i) Tax effect of reconciling differences	(81)	(94)	**(103)**	**(16)**
i) Additional distribution tax – retained earnings	(3)	(52)	**(492)**	**(78)**
i) Capital gains tax – Vodacom income	(43)	(140)	**(51)**	**(8)**
US GAAP adjustments – Vodacom:				
d) Derivative financial instruments	26	4	**4**	**1**
e) Goodwill	(1)	48	**47**	**7**
f) Joint venture accounting	(40)	–	**–**	**–**
g) Deferred bonus incentive scheme	10	(15)	**4**	**1**
h) Business combinations	–	–	**2**	**–**
i) Tax effect of reconciling differences	(11)	4	**(3)**	**–**
Net income as per US GAAP before cumulative effect of change in accounting principle	1,263	1,720	**4,230**	**669**
d) Cumulative effect of a change in accounting principle reflecting the application of SFAS133 – Telkom (net of tax of R30 million)	48	–	**–**	**–**
d) Cumulative effect of a change in accounting principle reflecting the application of SFAS133 – Vodacom (net of tax of R3 million)	6	–	**–**	**–**
e) Cumulative effect of a change in accounting principle reflecting the application of SFAS142 – Telkom (net of tax of Rnil)	–	(16)	**–**	**–**
Net income according to US GAAP	1,317	1,704	**4,230**	**669**

Basic and diluted EPS

The basic and diluted EPS do not differ, as there are no potentially dilutive securities. Weighted average number of shares is 556,994,962 (2003, 2002: 557,031,819) issued shares.

(Per share amounts in cents)	March 31, 2002	March 31, 2003	**March 31, 2004**	***March 31, 2004 US**
Basic and diluted earnings per share before cumulative effect of change in accounting principle	226.7	308.8	**759.4**	**120.1**
Basic and diluted earnings per share for cumulative effect of change in accounting principle	9.8	(2.9)	**–**	**–**
Basic and diluted earnings per share	236.5	305.9	**759.4**	**120.1**

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP information (continued)				
The following is a reconciliation of the material adjustments necessary to reconcile shareholders' equity in accordance with IFRS to the amounts in accordance with US GAAP as at March 31, 2004, 2003 and 2002.				
Shareholders' equity according to IFRS	16,832	18,348	**22,058**	**3,490**
US GAAP adjustments – Telkom:				
a) Revenue recognition	(1,105)	(1,028)	**(930)**	**(147)**
b) Sale and leaseback transaction	(277)	(188)	**(94)**	**(15)**
d) Derivative financial instruments	(34)	(23)	**(12)**	**(2)**
e) Goodwill	15	41	**66**	**11**
i) Tax effect of reconciling differences	535	468	**392**	**62**
i) Additional distribution tax – retained earnings	(423)	(475)	**(967)**	**(153)**
i) Capital gains tax – Vodacom income	(43)	(183)	**(234)**	**(37)**
US GAAP adjustments – Vodacom:				
e) Goodwill	15	43	**78**	**12**
g) Deferred bonus incentive scheme	29	14	**18**	**3**
h) Business combinations	–	–	**2**	**–**
i) Tax effect of reconciling differences	(9)	(4)	**(6)**	**(1)**
Shareholders' equity according to US GAAP	15,535	17,013	**20,371**	**3,223**

Comprehensive income

Under US GAAP, SFAS130 "Reporting Comprehensive Income" requires that certain items be recognised as a separate component of equity under the caption "Accumulated Other Comprehensive income" ("OCI"). Additionally the standard requires that companies present comprehensive income, which is a combination of net income and changes in a company's accumulated other comprehensive income accounts. Changes in the Group's accumulated other comprehensive income is reflected under non-distributable reserves.

	Retained earnings Rm	Other comprehensive income Rm	Balance Rm
Total April 1, 2001	5,438	45	5,483
Net income per US GAAP	1,317	–	6,755
Foreign currency translation adjustment	–	64	64
Increase in fair value of listed investment	–	5	50
Transitional adjustment on application of SFAS133 (net of tax of R262 million)	–	440	–
Release of transitional adjustment on application of SFAS133 to net income for 12-month period (net of tax of R38 million)	–	(67)	373
Total April 1, 2002	6,755	487	7,242
Net income per US GAAP	1,704	–	8,459
Foreign currency translation adjustment	–	(141)	(77)
Decrease in fair value of listed investment	–	(37)	13
Release of transitional adjustment on application of SFAS133 to net income for 12-month period (net of tax of R28 million)	–	(48)	325
Total March 31, 2003	8,459	261	8,720

47. US GAAP information (continued)

	Retained earnings Rm	Other comprehensive income Rm	Balance Rm
Net income per US GAAP	4,230	–	12,689
Foreign currency translation adjustment	–	(95)	(172)
Increase in fair value of listed investment	–	9	22
Release of transitional adjustment on application of SFAS133 to net income for 12-month period (net of tax of R29 million)	–	(47)	278
Total March 31, 2004	12,689	128	12,817

Movement in shareholders' equity in accordance with US GAAP

Shareholders' equity according to US GAAP	March 31, 2002 Rm	March 31, 2003 Rm	March 31, 2004 Rm	*March 31, 2004 US$m
Balance April 1	13,776	15,535	17,013	2,692
Net income for the year	1,317	1,704	4,230	669
Foreign currency reserves	64	(141)	(95)	(15)
Fair value adjustments – derivatives	373	(48)	(47)	(7)
Fair value adjustments – investments	5	(37)	9	1
Dividend declared	–	–	(501)	(79)
Treasury shares	–	–	(238)	(38)
Balance March 31	15,535	17,013	20,371	3,223

US GAAP income statement, balance sheet and cash flow statement without proportional consolidation of Vodacom.

Income statements as per US GAAP

	March 31, 2002 Rm	March 31, 2003 Rm	March 31, 2004 Rm	*March 31, 2004 US$m
Operating revenue	27,837	29,605	30,541	4,832
Other income	118	199	69	11
Operating expenses and depreciation	25,479	25,209	23,914	3,784
Operating income	2,476	4,595	6,696	1,059
Investment income	532	430	434	69
Net finance costs	2,390	3,684	2,920	462
Income after financial items	618	1,341	4,210	666
Equity accounted earnings	1,177	1,148	1,571	249
Taxation	434	736	1,495	237
Minority interests	44	49	56	9
Net income	1,317	1,704	4,230	669

Balance sheets as per US GAAP

	March 31, 2002 Rm	March 31, 2003 Rm	March 31, 2004 Rm	*March 31, 2004 US$m
Non-current assets	41,656	40,824	38,532	6,097
Current assets	9,288	8,167	8,401	1,329
Total assets	50,944	48,991	46,933	7,426
Equity	15,535	17,013	20,371	3,223
Minority interests	128	150	154	25
Long-term liabilities	24,650	18,777	15,037	2,379
Current liabilities	10,631	13,051	11,371	1,799
Total equity and liabilities	50,944	48,991	46,933	7,426

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP information (continued)				
Cash flow as per US GAAP				
Cash flow from operating activities	7,099	7,302	**11,796**	**1,867**
Cash generated from operations	7,959	8,821	**12,733**	**2,015**
Income from investments	459	390	**434**	**69**
Dividends received/paid	240	(26)	**(548)**	**(87)**
Net financing charges paid	(1,416)	(2,657)	**(992)**	**(157)**
Taxation paid	(143)	(71)	**(108)**	**(17)**
Taxation received	–	845	**277**	**44**
Cash flow from investing activities	(7,128)	(4,172)	**(4,226)**	**(669)**
Cash flow from financing activities	(905)	(2,947)	**(6,086)**	**(963)**
Net decrease in cash and cash equivalents	(934)	183	**1,484**	**235**
Net cash and cash equivalents at beginning of year	1,265	331	**514**	**81**
Net cash and cash equivalents at end of year	331	514	**1,998**	**316**

a) Revenue recognition

The staff of the US Securities and Exchange Commission issued Staff Accounting Bulletin 104 (SAB 104) that addresses revenue recognition under US GAAP. Under this guidance, revenue earned from access, installation-activation and similar fees should be recognised over the estimated life of the customer relationship. Also, SAB 104 permits, but does not require, companies to defer costs directly associated with such revenue and to also recognise these costs over the life of the customer relationship. Under IFRS the Group recognises this revenue and related costs when the services are provided and the related costs are incurred.

In accordance with US GAAP, revenue earned from installation and activation is deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is 7.5 years (2003: 7.5 years, 2002: 8 years) for telephony voice customers and 3.5 years (2003: 4 years, 2002: 4 years) for data-customers.

The Group recognises installation and activation costs, excluding those costs that are capitalised as an integral part of the network, in the period incurred. Revenue adjustments resulted in an increase in pre-tax earnings of R98 million, R77 million and R29 million in 2004 and 2003 and 2002 respectively.

b) Sale and lease-back transaction

During the year ended March 31, 2000, Telkom outsourced its entire fleet of vehicles as well as the maintenance, fuelling, insurance, tracking and other services to debis through a sale and leaseback agreement. The leaseback was in the form of a master service level agreement covering a period of five years providing, subject to the Company's requirements, for the annual lease contracts for each vehicle under the agreement.

Under the provisions of IAS17, the Group recorded a gain from the transaction since it has transferred substantially all of the risks and rewards incidental to ownership of the vehicles to debis and the criteria for profit recognition had been satisfied. The Group recognised a gain amounting to R463 million in 2000 and accounted for the leasebacks as operating leases.

Under US GAAP, SFAS13, as amended by SFAS28, the Group determined that while the terms of the agreement provide that the assets underlying the leasebacks would be subject to annual lease contracts, renewable based upon the Company's vehicle requirements and cancellable under certain terms, debis' right of first refusal to provide all of the Group's requirements during the five-year term represents an economic compulsion to renew the leases. Accordingly, the Group concluded that since the leaseback covered substantially all the assets that were sold under the contract for substantially all their remaining useful lives, deferral of the related gain and recognition over the term of the related agreements was appropriate.

Based on the requirements of SFAS13, a selected portion of the vehicle leases would be treated as finance leases due to the fact that when analysed on a vehicle by vehicle basis, the present value of the minimum lease payments of certain individual vehicles exceed 90% of the fair value of these vehicles or the lease term represents more than 75% of the remaining economic life of the vehicles. Accordingly, the full gain realised through the sale of the vehicles has been reversed and the proceeds from the sale are released over the period of the lease agreement. Rental payments would be applied to interest expense on the obligation as well as to reduce the principal amount of the obligation. The resulting capital lease assets are being depreciated over their remaining useful lives.

47. US GAAP Information (continued)

Telkom and debis negotiated the vehicle service level agreement with effective date of September 1, 2002. The change in the contract resulted in an increase in the number of vehicles being classified as capital leases. The increase in the number of capital leases was due to the lease term of the vehicles being extended, when compared to the previous contract, with a resulting impact on the economic life and present value calculations.

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Retained earnings opening balance – profit reversal	(372)	(277)	**(188)**	**(30)**
Recognition of profit – income	93	93	**93**	**15**
Depreciation adjustment	(9)	(30)	**(45)**	**(7)**
Finance costs	(1)	(10)	**(9)**	**(2)**
Add back: lease expense	12	36	**55**	**9**
Net impact on income statement per period	95	89	**94**	**15**
Retained earnings closing balance	(277)	(188)	**(94)**	**(15)**
Balance sheet				
Capital lease asset	–	102	**57**	**9**
Opening balance	9	–	**102**	**16**
Additions	–	132	**–**	**–**
Depreciation	(9)	(30)	**(45)**	**(7)**
Capital lease liability	–	105	**59**	**9**
Opening balance	–	–	**105**	**17**
Additions	–	132	**–**	**–**
Lease payments	–	(37)	**(55)**	**(9)**
Finance charges		10	**9**	**1**

c) Preliminary listing costs

Under IFRS, external costs directly attributable to the issue of new shares are shown as a deduction, net of tax in equity. This is only allowed under US GAAP however, when the proposed listing has not been delayed more than 90 days after incurring these costs. In 2002, Telkom's IPO was postponed more than 90 days. Therefore the costs incurred through March 31, 2002 related to the IPO of R44 million have been expensed.

d) Derivative financial instruments

SFAS133 – Fair value adjustments

The Group adopted IAS39 and SFAS133 on April 1, 2001. Upon adoption of IAS39, the difference between previous carrying amounts and the fair value of derivatives, that prior to the adoption of IAS39 had been designated as cash flow hedges or fair value hedges but do not qualify for hedge accounting under IAS39, was recognised as an adjustment to the opening balance of retained earnings in the financial year IAS39 was initially applied. Changes in the fair value of derivatives subsequent to April 1, 2001 are recorded in the income statement as they do not qualify for hedge accounting.

Under US GAAP, in accordance with SFAS133, the Company is required to recognise all derivatives on the balance sheet at fair value. The SFAS133 transitional adjustments (at April 1, 2001) are recorded differently than those recorded under IAS39. For pre-existing hedge relationships that would be considered cash flow type hedges, the transitional adjustment should be reported in OCI as a cumulative effect of the accounting change. Any transition adjustment reported as a cumulative effect adjustment in OCI will subsequently be reclassified into earnings in a manner consistent with the earnings effect of the hedged transaction. For pre-existing hedge relationships that would be considered fair value type hedges, the Company adjusted the carrying values of the hedged item to its fair value, but only to the extent of an offsetting transition adjustment from the previously designated hedging instrument.

47. US GAAP Information (continued)

SFAS133 – Fair value adjustments (continued)

The hedged asset or liability is subsequently accounted for in a manner consistent with the appropriate accounting for such assets and liabilities. For both cash flow and fair value hedges any portion of the derivative that is considered ineffective at transition is reported in income as a cumulative effect of an accounting change.

Upon adoption on April 1, 2001, the Group recorded an adjustment to other comprehensive income of R440 million (net of tax of R262 million) representing the fair value adjustment of derivatives for which the pre-existing hedge relationships would be considered cash flow type hedges. In the 2004 fiscal year, the Group reclassified from other comprehensive income into earnings R47 million (net of tax of R29 million) (2003: R48 million (net of tax of R28 million)) (2002: R67 million (net of tax of R38 million)) as the hedged transaction impacted earnings. Upon adoption, the Group also recorded an adjustment of R45 million to increase the carrying value of a hedged debt instrument that was the hedged item in what would be considered a fair value type hedge. The fair value adjustment to the hedged item is limited to the extent of an off-setting fair value adjustment to the hedging instrument. In the 2004 fiscal year, the Group amortised R11 million (2003: R11 million) and (2002: R11 million) of the adjustment to the hedged debt instrument into earnings. Upon adoption, the Group recorded, a cumulative effect of change in accounting principle, R54 million (net of tax of R33 million) representing the ineffective portion of adjustments to record derivatives at fair value.

e) Goodwill

Under IFRS, goodwill arising on the acquisition of a foreign entity is treated as an asset of the Group and translated at the foreign exchange rate in effect at transaction date. In accordance with IFRS the Group amortises goodwill and other intangibles on a straight-line basis over the anticipated benefit period.

Under US GAAP, goodwill arising on the acquisition of a foreign entity is translated at the actual exchange rate at the end of the period. Furthermore, under US GAAP with effect from July 1, 2001 goodwill and intangibles with infinite lives are not amortised for business combinations completed after June 30, 2001. For previously recorded goodwill and intangibles with infinite lives, amortisation ceased on March 31, 2002. These adjustments resulted in an increase in income in 2004 of R72 million and R74 million and R16 million to income in 2003 and 2002, respectively.

The Group adopted SFAS142 "Accounting for Goodwill and Other Intangibles" effective April 1, 2002 and completed the initial step of a transitional impairment test on all goodwill and indefinite lived intangible assets as of April 1, 2002. Management determined an impairment of R16 million under US GAAP and IFRS existed with respect to the acquisition of the minority interest in Swiftnet in May 2001, which has been recognised as a cumulative effect of accounting change under US GAAP in the 2003 fiscal year. Subsequent impairment losses will be reflected in operating income or loss in the income statement. There was no subsequent impairment loss recognised in fiscal years 2003 and 2004.

Had Telkom applied SFAS142 for the year ended March 31, 2004, 2003 and 2002, the pro forma effects on earnings would have been as follows (In millions of ZAR, except per share amounts):

	2002 Rm	2003 Rm	**2004 Rm**
Income before cumulative effect of accounting change	1,267	1,704	**4,230**
Net income according to US GAAP	1,317	1,704	**4,230**
Basic and diluted per share income before cumulative effect of accounting change (cents)	227.5	305.9	**759.4**
Basic and diluted net income per share (cents)	237.1	305.9	**759.4**

f) Joint venture accounting

Under IFRS, investments qualifying as joint ventures are accounted for under the proportionate consolidation method of accounting. Under the proportionate consolidation method, the venturer records its share of each of the assets, liabilities, income and expenses of the jointly controlled entity on a line-by-line basis with similar items in the venturer's financial statements. The venturer continues to record its total share of the losses in excess of the net investment in the joint venture.

However, for US GAAP purposes where the joint ventures are equity accounted, losses are only recognised up to the net investment in the joint venture, unless the investor has committed to continue providing financial support to the investee.

In 2002 in accordance with IFRS, the Group proportionately consolidated losses of R18 million that were in excess of the Group's net investment in the joint venture. Under US GAAP these losses are not recorded. The investment was disposed in 2002 and the gain on the sale for IFRS purposes was calculated based on a lower investment balance, resulting in excess gain of R40 million compared with US GAAP.

47. US GAAP Information (continued)

Vodacom equity accounted earnings

Under IFRS, the Group's interests in joint ventures are proportionally consolidated. Under US GAAP, interest in joint ventures not meeting the criteria for accommodation under item 17 of form 20-F should be reflected in the consolidated financial statements using the equity method. The following table sets out the restated abbreviated income statement and balance sheet of the Group joint venture company, Vodacom, after US GAAP adjustments.

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Income statements as per US GAAP				
Operating income	3,615	4,552	**5,466**	**865**
Income after financial items	3,588	3,748	**5,004**	**792**
Equity accounted earnings	(18)	(188)	**1**	**–**
Taxes	(1,463)	(1,354)	**(1,987)**	**(315)**
Minority interests	(30)	(113)	**(26)**	**(4)**
Change in accounting policy	43	5	**5**	**1**
Net income for the year	2,120	2,098	**2,997**	**474**
Balance sheets as per US GAAP				
Non-current assets	11,448	11,853	**12,394**	**1,961**
Current assets	3,990	4,599	**6,708**	**1,061**
Total assets	15,438	16,452	**19,102**	**3,022**
Equity	4,874	6,086	**6,788**	**1,074**
Minority interests	11	88	**93**	**14**
Liabilities	10,553	10,278	**12,221**	**1,934**
Total equity and liabilities	15,438	16,452	**19,102**	**3,022**

g) Deferred bonus incentive scheme

Under IFRS, the total value of deferred bonus entitlements as calculated at the end of each financial period are provided for in full on the balance sheet date, based on the net present value of expected future cash flows. Under US GAAP, compensation cost should be recognised over the service period or the vesting period if the service period is not defined, based upon the undiscounted value of the entitlements.

h) Business combinations

Under IFRS, the Group elected to fair value 100% of the assets acquired and liabilities assumed, including minority interests. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill.

Under US GAAP, the Group should only fair value the percentage of the assets acquired and liabilities assumed, excluding minority interests. Similar to IFRS, the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill. As a result, the carrying amount of the goodwill for US GAAP purposes is adjusted to reflect the different values assigned to the minority portion of assets and liabilities.

i) Income taxes

Deferred tax benefits and liabilities are calculated, when applicable, for the differences between IFRS and US GAAP.

Telkom is taxed at a corporate tax rate of 30% on taxable income. Telkom incurs an additional Secondary Tax on Companies ("STC") at a rate of 12.50% on any dividends distributed to shareholders. The dividend tax is payable if and only when dividends are distributed. Neither the Company nor the shareholders receive any future tax benefits as a result of additional tax on dividends paid. As required under IFRS, Telkom will recognise the tax effects of dividends when distributed in future. Under US GAAP, consistent with the requirements of EITF 95-9, the Company measures its income tax expense, including the tax effect of temporary differences, using the tax rate that includes the dividend tax. STC is calculated on retained income after the 1992 fiscal year after deducting the net gains from certain capital transactions as defined and after giving credit for dividends received from Vodacom and other subsidiaries for which the Group had paid the related STC tax.

47. US GAAP Information (continued)

The following is the reconciliation of the tax expense computed using the statutory tax rate of 30% to the effective rate of 36% (2003: 55%; 2002: 70%)

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Income before tax per US GAAP	618	1,341	**4,210**	**666**
Expected income tax expense at statutory rate of 30%	186	402	**1,263**	**200**
Adjustments due to STC on retained income	26	80	**533**	**84**
Exempt income	(1)	(55)	**(180)**	**(28)**
Unutilised tax losses	(11)	–	**–**	**–**
Disallowable expenses	264	129	**(149)**	**(24)**
Temporary differences in joint venture	(11)	4	**–**	**–**
Adjustment on possible CGT – Vodacom earnings	43	140	**51**	**8**
(Under)/overprovision for prior year	(62)	36	**(23)**	**(4)**
Effective tax	434	736	**1,495**	**236**

With respect to the Group's investment in Vodacom, SFAS109 requires that deferred taxes be recognised for the effect of the excess of the amount of financial reporting over the tax basis of such investment. According to South African tax law, the Group would be required to pay tax at a rate of 30% on any increase in the taxable appreciation in the value of its investment since October 1, 2001. As such, deferred taxes have been recognised on the Group's share of the undistributed earnings of Vodacom since October 1, 2001.

Deferred tax

The tax effects of the US GAAP adjustments relating to Telkom's operations have been calculated based on a tax rate of 37.78%.

A reconciliation of the deferred tax balances under IFRS to the amounts determined under US GAAP, where materially different, is as follows:

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Net deferred tax asset/(liability) per IFRS	549	240	**(422)**	**(67)**
Vodacom deferred tax balance (equity accounted)	214	144	**79**	**13**
Additional distribution tax	(423)	(475)	**(967)**	**(153)**
CGT on equity investee	(43)	(183)	**(234)**	**(37)**
Tax effect of US GAAP adjustments	535	468	**392**	**62**
Net deferred tax asset/(liability) per US GAAP	832	194	**(1,152)**	**(182)**

47. US GAAP Information (continued)

j) Guarantees

Under IFRS, fees received by the Group from issuing guarantees are recognised in income as earned. A liability in respect of the guarantee is not recognised until such time as the contingent liability is thought likely to realise.

Under US GAAP, the Group adopted the initial recognition and initial measurement provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees and Indebtedness of Others (an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of Interpretation No. 34)" ("FIN45") in fiscal year 2004. This interpretation clarifies that for certain guarantees a guarantor is required to recognise, at the inception of a guarantee entered into after December 15, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognised liability over the term of the related guarantee.

The Group has issued guarantees on a certain portion of employee's housing loans. The amount guaranteed differs depending on the facts such as employment period and salary rates. When an employee leaves the employment of the Company, any housing debt guaranteed by Telkom is settled before any pension payout can be made to the employee. The fair value of guarantees subsequent to December 31, 2002 is not material to the Group.

The Group has issued certain guarantees in connection with borrowings of Vodacom Congo (RDC) s.p.r.l., an equity method investee for US GAAP purposes. On the adoption of FIN45, all guarantees issued during fiscal year 2004 related to Vodacom Congo (RDC) s.p.r.l. were initially recorded at fair value at the balance sheet and subsequently amortised into income statements as the premiums are earned.

Additional US GAAP disclosures

Share based compensation

The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB25") and related interpretations, because the Company believes the alternative fair value accounting model provided for under FASB Statement No.123, Accounting for Stock-Based Compensation, ("SFAS123") requires the use of option valuation models that were not developed for use in valuing employee stock options.

Under APB25, Telkom must account for options granted by a principal shareholder to its employees as a result of their employment with Telkom. Accordingly, the excess of the market price of the underlying stock at the date of grant over the exercise price of the employee options, is recognised as a shareholder capital contribution and compensation expense over the vesting period in the financial statements of the Company. The Company recognises this compensation expense for its graded vesting stock options on a straight-line basis over the vesting period of the shares.

Options granted under the Diabo stock option plan established by the principal shareholder, the Government of South Africa, are exercisable at the price of R33.81, expire three years from the date of grant, are not transferable other than on death, and are exercisable in four equal annual installments commencing on the date of grant, the first payments having been made six months from IPO date and on the first anniversary date of the scheme.

The compensation expense, applicable to current and ex-employees, is calculated as the difference between the option price and the share price on IPO date since it all relates to compensation for past service. Since the option price exceeded the share price on that date, no compensation expense is recorded.

Pro forma information regarding net income and earnings per share is required by SFAS123, as amended by SFAS148, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a binomial option pricing model with the following weighted-average assumptions:

- risk-free interest rates based on government zero coupon curve of 13.2% (first option), 12.7% (second option), 11.6% (third option) and 11.3% (last option date);
- dividend yields of 3.33% pa (no dividend yield for the first year);
- volatility factors of the expected market price of the Company's common stock of 34% pa

An actuarially adjusted binomial valuation method has been used that builds up a full binomial tree of possible share prices whenever the option is exercised, and discounts these to establish the fair value of the option granted.

47. US GAAP Information (continued)

For purposes of pro forma disclosures, the estimated fair value of the options is recognised as a one time charge to operating expenses as allowed by the SEC for options granted in connection with privatising governmental entities. The Company's pro forma information based on fair value calculations under SFAS123 follows:

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
US GAAP net income	1,317	1,704	**4,230**	**669**
Compensation expense	–	(46)	**–**	**–**
Pro forma net income	1,317	1,658	**4,230**	**669**
Pro forma basic and diluted earnings per common share (cents):	236.4	297.6	**759.4**	**120.1**

A summary of the Company's stock option activity and related information for the year ended March 31, 2004 follows:

	March 31, 2002	March 31, 2003	**March 31, 2004**
Outstanding number at the beginning of the year	–	–	**11,140,636**
Granted during the year	–	11,140,636	**–**
Exercised during the year	–	–	**5,570,318**
Outstanding at the end of the year	–	11,140,636	**5,570,318**
Exercisable at the end of the year	–	–	**–**
Fair value of options granted during the year	–	R46 million	**–**

Exercise prices for options outstanding, as at March 31, 2004 is R33.81. The weighted-average remaining contractual life of those options is 519.5 days.

Employee benefits

There is a difference in treatment of the transitional asset/liability at inception of the statements under IFRS and US GAAP. In terms of FAS87, this is amortised on a straight-line basis over the remaining working lives of the employees participating in the plan from April 1, 1989. In terms of IAS19, if this is a "liability" or deficit, this is either recognised immediately or alternatively amortised over a period of five years. In the event of an asset arising, the full amount is recognised immediately. The effect of these differences has been immaterial to the US GAAP reconciliation.

Pension and retirement funds

For purposes of US GAAP, pension costs for defined benefit plans are accounted for in accordance with SFAS87 "Employers' Accounting for Pensions" and the disclosure is presented in accordance with SFAS132 "Employers' Disclosures about Pensions and Other Post-retirement Benefits". Presented below are the disclosures required by US GAAP that are in addition to those provided under IFRS. Except as described below, the plan liabilities and assets are the same under US GAAP as IFRS. The difference in the balance sheet and income statements amounts are attributable to how and when the respective standards were implemented.

The Telkom Retirement Fund invests their funds in South Africa and internationally. Seven fund managers invest in South Africa and two specialised fund managers trade with bonds on behalf of the Retirement Fund. The market value of the local investments is approximately R11.4 billion. (Included in this investment is R46 million worth of Telkom bonds). Internationally a global equity mandate is utilised, the value at the end of March being approximately R1.1 billion.

The total expected contributions payable to the pension and retirement fund for the next financial year is R445 million.

47. US GAAP Information (continued)

Actuarial calculations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented. The following assumptions were used in their calculations:

The fund portfolio consists of the following	
– Equities	60%
– Bonds	30%
– Cash	10%
Yield on government bonds	9%
Long-term rate of return on equities	12%
Long-term rate of return on cash	7%
Administration fee allowance	1%
Expected return on assets	10%

Expected future benefit payments are as follows:

	Pension fund Rm	Retirement fund Rm	Total Rm
2005	10	330	340
2006	14	352	366
2007	18	374	392
2008	19	397	416
2009	20	420	440
>5 years	171	2,460	2,631
Total	252	4,333	4,585

No surplus has been recognised for both the pension and retirement fund as there is significant uncertainty as to the existence and valuation of the pension and retirement fund asset. The uncertainty is due to the Pension Funds Second Amendment Act which requires the apportionment of any actuarial surplus existing in the fund at the apportionment date, between the existing members, including pensioners, former members and the employer in such proportions as the trustees of the fund shall determine. Pending the outcome of the apportionment exercise, a portion of the surplus may be recognised as an asset in future periods.

The income statement expense is therefore the amount of pension contributions. The last statutory valuation of the funds performed in March 2002, indicated a statutory deficit and the current contributions are based on that valuation. Management expects to complete the next statutory valuation in March 2005.

Pension fund

The pension fund values for March 2002 are not material.

The net periodic pension costs includes the following components:

	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Service cost on benefits earned:			
Interest and service cost on projected benefit obligations	17	**22**	**3**
Expected return on plan assets	(28)	**(31)**	**(5)**
Amortisation of transitional obligation	(3)	**(3)**	
Amortisation of unrecognised net gain	–	**2**	**–**
Net periodic pension benefit not recognised	(14)	**(10)**	**(2)**
Pension contributions	18	**22**	**3**

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP Information (continued)				
The status of the pension plan is as follows:				
Benefit obligation:				
At beginning of year		113	**162**	**26**
Interest and service cost		20	**23**	**3**
Employee contributions		–	**3**	**–**
Benefits paid and net cash flow		–	**(7)**	**(1)**
Actuarial loss		29	**9**	**2**
Benefit obligation at end of year		162	**190**	**30**
Plan assets at fair value:				
At beginning of year		190	**211**	**33**
Expected return on plan assets		28	**32**	**5**
Net cash flows		21	**17**	**3**
Actuarial loss		(28)	**(41)**	**(6)**
Plan assets at end of year		211	**219**	**35**
Net funding position		49	**29**	**5**
Unrecognised net transitional obligation		(43)	**(41)**	**(7)**
Unrecognised actuarial loss		50	**100**	**16**
Pension surplus		56	**88**	**14**

Retirement fund

The net periodic retirement costs includes the following components:

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Service cost on benefits earned:				
Interest and service cost on projected benefit obligations	324	307	**279**	**44**
Expected return on plan assets	(444)	(479)	**(421)**	**(66)**
Amortisation of transitional obligation	–	1	**1**	**–**
Amortisation of unrecognised net gain	–	(48)	**–**	**–**
Net periodic pension benefit not recognised	(120)	(219)	**(141)**	**(22)**
Retirement fund contributions	494	452	**466**	**74**
Benefit obligation:				
At beginning of year	2,340	2,809	**2,679**	**424**
Interest and service cost	324	307	**279**	**44**
Benefits paid and net cash flow	145	(279)	**(307)**	**(49)**
Actuarial (gain)/loss	–	(158)	**511**	**81**
Benefit obligation at end of year	2,809	2,679	**3,162**	**500**

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP Information (continued)				
Plan assets at fair value:				
At beginning of year	2,687	3,512	**3,106**	**491**
Expected return on plan assets	444	478	**421**	**67**
Net cash flows	381	(185)	**(305)**	**(48)**
Actuarial (loss)/gain	–	(699)	**318**	**50**
Plan assets at end of year	3,512	3,106	**3,540**	**560**
Net funding position	703	427	**378**	**60**
Unrecognised net transitional obligation	8	8	**7**	**1**
Unrecognised actuarial (loss)/gain	(351)	190	**383**	**60**
Pension surplus	360	625	**768**	**121**

Health care costs

In addition to the Group's defined benefit pension plan, the Group sponsors a defined benefit health care plan that provides post-retirement medical benefits to full-time employees who have worked for the Company and joined before June 30, 2000. Employees joining after June 30, 2000 do not qualify for any post-retirement health care subsidies. The plan is contributory, with retiree contributions adjusted annually. The Group's policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

The contribution liability is calculated as the present value of the future contributions after retirement. The Rand cap on the subsidy applicable to active members and post-1994 continuation members has been assumed to escalate at salary inflation.

The assumed future investment returns has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	One percentage-point movement
Impact on total of service and interest cost components in 2004	**R13 million**
Impact on post-retirement benefit obligation as of 2004	**R374 million**

Restrictions on dividend payouts

The following is a reconciliation of retained earnings per US GAAP to the amount of unrestricted retained earnings:

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Retained earnings per US GAAP	6,755	8,459	**12,689**	**2,008**
Share of non-distributable retained earnings in significant investee	(2,678)	(3,485)	**(3,951)**	**(625)**
Cell Captive investment	(35)	(48)	**(237)**	**(38)**
Unrestricted earnings under US GAAP	4,042	4,926	**8,501**	**1,345**

All distributable earnings are available for distribution based on the Group's dividend policy. The Board of Directors of Telkom decides on an annual basis the amount of earnings to be reinvested in the operations and the amount of any remaining funds that are available for distribution to shareholders.

Retained earnings of our investee, Vodacom, are restricted, since we require the consent of other shareholders in order to require Vodacom to declare dividends. Restricted retained earnings included in the March 31, 2004 balance amount to R3,951 million (2003: R3,485 million; 2002: R2,678 million).

The Group has invested funds in two cell captives, which will be used to fund future post-retirement medical aid costs and for short-term insurance. These funds will be used for those purposes only and are therefore not distributable.

47. US GAAP Information (continued)

Leases

In the year ended March 31, 2000 the Group entered into a sale and leaseback of its vehicle fleet with debis, part of which is being accounted for under US GAAP as capital leases. While no minimum usage clause exists in this contract as presented in Note 24, the Group is deemed to be economically compelled under US GAAP to renew such leases based upon their historical requirements and contractual obligations to source any such requirements during the contract period from debis. In accordance with the agreement Telkom is not allowed to lease any similar vehicles as those specified in the contract from any other service provider during the five-year period.

The current contract does not have a forced renewal option. Any continued involvement after March 31, 2005 will be renegotiated at the time of expiry of the current contract. The contract is structured to have no lease increases on vehicles that are continually leased from debis. If a vehicle is replaced by a new similar vehicle the lease payment is increased with a percentage increase based on the South African Consumer Price Index at the time.

The operating lease commitments as at March 31, 2004 are as follows:

	Buildings Rm	Equipment Rm	Vehicles Rm	Total Rm
2005	115	13	485	613
2006	89	9	–	98
2007	75	13	–	88
2008	68	1	–	69
2009	49	–	–	49
>5 years	48	–	–	48
Total	444	36	485	965
The finance lease commitments as at March 31, 2004 are as follows:				
2005	78	–	55	133
2006	85	–	–	85
2007	94	–	–	94
2008	103	–	–	103
2009	113	–	–	113
>5 years	1,643	–	–	1,643
Total	2,116	–	55	2,171

Asset retirement obligations

The Group provides for its asset retirement obligations, if estimable, at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in the income statement. The provision raised in respect of the Group's asset retirement obligation is not significant. The Group does, however, have assets with indeterminate useful lives for which not enough information is currently available to estimate a range of settlement dates, and thus the fair value of the obligation. For these assets the liability will be recognised in the period in which sufficient information related to the potential settlement dates is available to determine a fair value.

Notes to the consolidated annual financial statements

for the three years ended March 31, 2004

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
47. US GAAP Information (continued)				
Statement of income classification items				
US GAAP requires the disclosure of certain income statement items				
Revenues from other services	(21,129)	(22,319)	**(22,746)**	**(3,599)**
Income from rentals	(599)	(591)	**(629)**	**(99)**
Net sales of tangible products	(120)	(130)	**(208)**	**(33)**
Income from Government	(1,288)	(1,606)	**(1,866)**	**(295)**
Income from other related parties	(4,701)	(4,959)	**(5,092)**	**(806)**
Total operating revenue	(27,837)	(29,605)	**(30,541)**	**(4,832)**
Total revenue from services	(27,717)	(29,475)	**(30,333)**	**(4,799)**
– Subscription and connection	(4,283)	(4,582)	**(4,915)**	**(778)**
– Domestic (local and long distance)	(8,670)	(9,176)	**(9,680)**	**(1,532)**
– Fixed to mobile	(7,323)	(7,540)	**(7,321)**	**(1,158)**
– International outgoing	(1,175)	(1,284)	**(1,312)**	**(207)**
– Interconnection	(1,765)	(1,762)	**(1,643)**	**(260)**
– Data	(3,814)	(4,464)	**(5,032)**	**(796)**
– Directories and other	(687)	(667)	**(430)**	**(68)**
Revenue from product sales	(120)	(130)	**(208)**	**(33)**
Total operating revenue	(27,837)	(29,605)	**(30,541)**	**(4,832)**
Costs of services	13,670	13,840	**14,749**	**2,334**
Cost of sales related to services	122	126	**93**	**15**
Cost of tangible products sold	110	120	**201**	**32**
Operating expenses of other income and SG&A	11,577	11,123	**8,871**	**1,403**
Total operating expense	25,479	25,209	**23,914**	**3,784**
Net interest and amortisation of debt expense	1,830	4,113	**(2,918)**	**(462)**
Balance sheet classification items				
US GAAP requires the disclosure of certain balance sheet items				
Amounts payable for advisory, management and service fee	(23)	(26)	**(7)**	**(1)**
Amounts payable to controlled companies	(40)	(89)	**(115)**	**(18)**
Amounts payable to affiliates	(676)	(393)	**(496)**	**(79)**
Trade creditors	(1,666)	(1,620)	**(1,127)**	**(178)**
Restructuring liability	(35)	–	**(97)**	**(15)**
Other amounts payable	(3,438)	(1,950)	**(2,288)**	**(362)**
Total payable	(5,878)	(4,078)	**(4,130)**	**(653)**

Other payables include the following broad categories of payables: Financial instrument payables, sundry provisions, accruals and VAT payable.

47. US GAAP Information (continued)

Allowances

The following allowances have been included in other liabilities in the balance sheet items as disclosed in the IFRS financial statements for the Company.

	March 31, 2002 Rm	March 31, 2003 Rm	**March 31, 2004 Rm**	***March 31, 2004 US$m**
Restructuring provision				
Opening balance	–	35	**–**	**–**
Movement in provision	373	244	**302**	**50**
Workforce reduction payments	(338)	(279)	**(205)**	**(34)**
Closing balance restructuring liability	35	–	**97**	**16**

Recently issued accounting standards

In November 2002, The Emerging Issues Task Force reached a final consensus related to Revenue Arrangements with Multiple Deliverables (EITF 00-21). The consensus requires that revenue arrangements with multiple deliverables should be divided into separate units of accounting if (a) a delivered item has a value to the customer on a stand alone basis, (b) there is objective and reliable evidence of the fair value of the undelivered item and (c) the arrangement includes a general right of return, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair value and appropriate revenue recognition criteria would be applied to each separate unit of accounting. The Group has not yet determined what effect, if any, EITF 00-21 would have on revenue and net income determined in accordance with US GAAP. The task force agreed the effective date for the consensus will be for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The Group is still evaluating the impact of this EITF on its financial statements. This EITF will be effective for the Group for revenue arrangements entered into after April 1, 2004.

On May 28, 2003, the Financial Accounting Standards Board ratified the consensus reached in the Emerging Issues Task Force Issue no 01-8, "Determining Whether an Arrangement Contains a Lease". EITF 01-8 addresses the issue on how to determine whether an arrangement contains a lease that is within the scope of SFAS13, "Accounting for Leases". EITF 01-8 requires lease accounting for contractual arrangements that explicitly or implicitly convey the right to use specific property plant or equipment. These "embedded lease" attributes exist in certain data processing outsourcing arrangements that require a substantial investment in computer hardware and terminals devoted solely to the use of a single customer, or where providers of network capacity grant rights to capacity on the basis of an indefeasible right of use. The adoption of EITF01-8 will result in indefeasible rights of use being accounted for as service contracts. The Group plans to adopt the provisions of EITF 01-8 for all agreements entered into after March 31, 2004, and it is not expected to have a material impact on the Group's results of operations, financial position and cash flows.

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Company

This report is available on our website at http://www.telkom.co.za/ir

Company income statement

for the two years ended March 31, 2004

	Notes	2003 Rm	**2004** **Rm**
Operating revenue	3	28,858	**30,175**
Other income	4	198	**91**
Operating expenses		24,951	**24,034**
Employee expenses	5.1	6,563	**6,600**
Payments to other operators	5.2	6,628	**6,062**
Selling, general and administrative expenses	5.3	2,864	**2,385**
Services rendered	5.4	2,568	**2,196**
Operating leases	5.5	1,062	**864**
Depreciation, amortisation, impairment and write-offs	5.6	5,266	**5,927**
Operating profit		4,105	**6,232**
Investment income	6	736	**1,525**
Profit before finance charges		4,841	**7,757**
Finance charges	7	3,758	**3,155**
Interest		2,692	**2,356**
Foreign exchange and fair value effect		1,066	**799**
Profit before taxation		1,083	**4,602**
Taxation	8	375	**719**
Net profit for the year		708	**3,883**

Company balance sheet
at March 31, 2004

	Notes	2003 Rm	**2004 Rm**
Assets			
Non-current assets		37,215	**35,406**
Property, plant and equipment	9	35,615	**33,492**
Intangible assets	10	–	**–**
Investments	11	1,228	**1,715**
Deferred taxation	12	372	**199**
Current assets		8,275	**8,289**
Other financial assets	13	1,740	**1,070**
Income tax receivable	14	276	**–**
Short-term investments	11	460	**19**
Inventories	15	451	**322**
Trade and other receivables	16	4,887	**4,868**
Cash and cash equivalents	17	461	**2,010**
Total assets		45,490	**43,695**
Equity and liabilities			
Capital and reserves		14,673	**18,064**
Share capital and premium	18	8,293	**8,293**
Non-distributable reserves		13	**22**
Retained earnings		6,367	**9,749**
Non-current liabilities		19,161	**15,113**
Interest-bearing debt	19	16,633	**12,142**
Deferred taxation	12	–	**546**
Provisions	21	2,528	**2,425**
Current liabilities		11,656	**10,518**
Credit facilities utilised	17	–	**35**
Trade and other payables	22	4,144	**4,436**
Shareholders for dividends		–	**7**
Deferred income	23	609	**636**
Current portion of interest-bearing debt	19	4,540	**3,629**
Current portion of provisions	21	1,901	**1,314**
Other financial liabilities	13	462	**461**
Total equity and liabilities		45,490	**43,695**

Company statement of changes in equity

for the two years ended March 31, 2004

	Share capital Rm	Share premium Rm	Preliminary listing costs Rm	Non-distributable reserves Rm	Retained earnings Rm	Total Rm
Balance at April 1, 2002	5,570	2,723	(44)	50	5,659	13,958
Net profit for the year					708	708
Fair value adjustment on investments				(37)		(37)
Preliminary listing costs expensed (Note 18)			44			44
Balance at April 1, 2003	**5,570**	**2,723**	**–**	**13**	**6,367**	**14,673**
Net profit for the year					**3,883**	**3,883**
Fair value adjustment on investments				**9**		**9**
Dividend declared					**(501)**	**(501)**
Balance at March 31, 2004	**5,570**	**2,723**	**–**	**22**	**9,749**	**18,064**

Company cash flow statement

for the two years ended March 31, 2004

	Notes	2003 Rm	**2004 Rm**
Operating activities		7,283	**11,134**
Cash receipts from customers		29,059	**30,273**
Cash paid to suppliers and employees		(20,699)	**(18,748)**
Cash generated from operations	25	8,360	**11,525**
Interest received		267	**351**
Interest received from joint venture		84	**22**
Dividend received from joint venture	28	300	**600**
Dividend received from subsidiary	28	45	**101**
Finance charges paid	26	(2,617)	**(1,248)**
Taxation refunded	27	844	**277**
Dividend paid	28	–	**(494)**
Investing activities		(4,013)	**(3,477)**
Proceeds on disposal of property, plant and equipment		13	**48**
Proceeds on disposal of investment		172	**29**
Additions to property, plant and equipment		(3,969)	**(3,701)**
Additions to other investments		(240)	**(240)**
Loans repaid by subsidiaries		11	**29**
Advance to subsidiary		–	**(102)**
Loan repaid by joint venture		–	**460**
Financing activities		(3,108)	**(6,143)**
Listing costs		(154)	**–**
Loans raised		8,720	**1,639**
Loans repaid		(11,313)	**(7,258)**
Increase in net financial assets		(361)	**(524)**
Net increase in cash and cash equivalents		162	**1,514**
Net cash and cash equivalents at beginning of the year		299	**461**
Net cash and cash equivalents at end of the year	17	461	**1,975**

Notes to the annual financial statements

for the two years ended March 31, 2004

1. Overview of business activities

Telkom SA Limited ("Telkom") is a limited liability company incorporated in the Republic of South Africa ("South Africa"). The Company is the leading provider of fixed-line voice and data communications services in South Africa. The Company's services and products include:

- fixed-line telephony, including domestic, prepaid, international, public payphone and carrier services, as well as enhanced services and customer premises equipment sales;
- data communications using fibre connections, including data transmission, data networking and leased lines and related services, and
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services.

2. Significant accounting policies

Basis of preparation

The financial statements comply with International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board, South African Statements of Generally Accepted Accounting Practice ("SA GAAP") and the Companies Act in South Africa.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments, which are measured at fair value, in conformity with IFRS and SA GAAP. Details of the Company's significant accounting policies are set out below, and are consistent with those applied in the previous year.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Property, plant and equipment

Freehold land is stated at cost and is not depreciated.

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged from the date of commissioning on a straight-line basis over the estimated useful life. Assets under construction represents freehold land and buildings, software, network and support equipment and includes all direct expenditure but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years
Freehold buildings	40
Leasehold buildings	10 to 25
Network equipment	
Cables	15 to 40
Switching equipment	15
Transmission equipment	15
Other	2 to 20
Support equipment	5 to 10
Furniture and office equipment	6 to 10
Data processing equipment and software	5
Other	3 to 10

Impairment of assets

The Company regularly reviews its assets, other than financial instruments, for any indication of impairment. When indicators including changes in technology, market, economic, legal and operating environments occur and result in changes of the assets' estimated remaining useful life, an impairment test is performed.

The recoverable amount of assets is measured using the higher of the present value of projected cash flows covering the remaining useful lives of the assets, and the net realisable value. Impairment losses are recognised when the asset's carrying value exceeds its estimated recoverable amount. The recoverable amount is determined for the cash-generating unit to which the asset belongs.

A previously recognised impairment loss is reversed through the income statement if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the asset's expected useful life.

The expected useful life assigned to trademarks and copyrights is four to five years.

Asset retirement obligations

Asset retirement obligations are provided for, if estimatable, at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges.

2. Significant accounting policies (continued)

Repairs and maintenance
The Company expenses all costs associated with the repair and maintenance of its telecommunications network, unless these add to the value of the assets or prolong the useful lives.

Borrowing costs
Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Company borrowings was utilised. Other borrowing costs are expensed as incurred.

Inventories
Inventories are stated at the lower of cost, determined on a weighted average basis, or estimated net realisable value.

Subsidiaries and joint ventures
Investments in subsidiaries and joint ventures are carried at cost and adjusted for any impairment losses.

Financial instruments
Recognition
All financial instruments are initially recognised at cost, including transaction costs, when the Company becomes a party to their contractual arrangements. Regular way transactions are accounted for on settlement date.

Subsequent to initial recognition, financial assets classified as "held-for-trading" and "available-for-sale" are measured at fair value and those classified as "loans and receivables originated by the enterprise" and "held-to-maturity" at amortised cost. Interest-bearing borrowings and other financial liabilities are measured at amortised cost where a maturity date exists, or at cost if no maturity date exists. Liabilities held for trading and derivatives are measured at fair value with gains and losses included in net profit or loss for the period. Amortised cost is calculated on the effective interest rate method. Gains and losses arising on changes in fair value of these instruments are recognised in net profit or loss for the period, except for those classified as "available-for-sale" which are taken directly to equity. Fair value adjustments on unlisted investments are made if the value can be measured reliably.

The estimated fair values of derivatives are determined based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

Listed investments, other than investments in subsidiaries, joint ventures and associates, are subsequently measured at fair value, which is calculated by reference to the quoted selling price at the close of business on the balance sheet date.

Derecognition
A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the Company loses the contractual rights or extinguishes the obligation. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in net profit or loss for the period. For "available-for-sale" assets, the fair value adjustment relating to prior revaluations of assets is transferred from equity and recognised in net profit or loss for the period.

Trade and other receivables
Short-term trade receivables are recognised and carried at original invoice amount, which is the undiscounted fair value of the consideration receivable. Long-term trade receivables are initially recognised at fair value and subsequently measured at amortised cost.

Bills of exchange and promissory notes
Bills of exchange and promissory notes held to maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are carried at the cost of the consideration given. Bills of exchange held as trading instruments are carried at mark-to-market rates.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held on call and term deposits with maturity of less than three months.

Derivative financial instruments
All derivative financial instruments are measured at fair value subsequent to initial recognition with gains and losses taken to finance charges. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are determined as the difference in the present value of the future net interest cash flows. The fair value of currency swaps is determined with reference to the present value of expected future cash flows. The Company's derivative transactions, while providing effective economic hedges under the risk management policies, do not qualify for hedge accounting under the specific rules of IAS39.

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

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans originated by the enterprise. Originated loans are recorded at amortised cost.

All associated finance charges are taken to the income statement.

Notes to the annual financial statements

for the two years ended March 31, 2004

2. Significant accounting policies (continued)

Bridge liquidity transactions

New bonds issued are measured at amortised cost based on the yield to maturity of the new issue.

Bonds are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges.

Bonds issued where Telkom is a buyer and seller of last resort are carried at amortised cost. The Company does not actively trade in bonds.

Foreign currencies

The measurement currency of the Company is the South African Rand ("ZAR").

Transactions denominated in foreign currencies are translated at the rate of exchange at the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Realised and unrealised gains and losses on foreign exchange are included in finance charges.

Impairment of financial assets

At each balance sheet date an assessment is made of whether there are any indicators of impairment of financial assets based on an analysis of historical bad debt and customer credit-worthiness. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised in net profit or loss for the period for the difference between the recoverable amount and the carrying amount. The recoverable amount of assets carried at amortised costs is calculated as the present value of expected future cash flows discounted at the original effective interest rate of the asset.

Taxation

Current taxation

The charge for current taxation is based on the results for the period and is adjusted for non-taxable income and non-deductible expenditure. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is accounted for using the balance sheet liability method at current rates in respect of temporary differences. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary Taxation on Companies

Secondary Taxation on Companies ("STC") is provided for at a rate of 12.5% on the amounts by which dividends declared by the Company exceeds dividends received. Deferred tax on unutilised STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for set-off.

Employee benefits

Post-employment benefits

The Company provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Company, taking into account recommendations of the independent actuaries. The post-retirement medical and telephone rebate liabilities are unfunded.

Defined contribution plans

The Company's funding of the defined contribution plans is charged to the income statement in the same period as the related service is provided.

Defined benefit plans

The Company provides defined benefit plans for pension, retirement, medical aid costs and telephone rebates to qualifying employees. The Company's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, as adjusted for unrecognised actuarial gains and losses, unrecognised past service costs and reduced by the fair value of plan assets. The amount of any surplus recognised is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement of the surplus, no asset is recognised.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised gains and losses for each individual plan exceeds 10% of the greater of the present value of the Company's obligation or the fair value of plan assets. These gains or losses are amortised on a straight-line basis over ten years for the medical liability and over the expected average remaining working lives of the employees participating in the other plans.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise, they are recognised on a straight-line basis over the average period the benefits become vested.

2. Significant accounting policies (continued)

Leave benefits
Annual leave is provided for over the period that the leave accrues and is subject to a cap. Sick leave is provided for on days accrued and is also subject to a cap.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Termination benefits are recognised when it is probable that the expenses will be incurred.

Short-term employee benefits
The cost of all short-term employee benefits is recognised during the period employees render services, unless the entity uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment item.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Revenue
The Company provides fixed-line communication services and communication related products. The Company provides such services to business, residential and payphone customers. Revenue represents the value of fixed consideration that has been received or is receivable.

Revenue for services is stated at amounts invoiced to customers and excludes Value Added Tax.

Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The value of components is determined using verifiable objective evidence. The Company does not provide customers with the right to a refund.

Subscriptions
The Company provides telephone and data communication services under postpaid and prepaid payment arrangements. Revenue includes fees for installation and activation which are recognised as revenue upon activation. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the life of the customer relationship. All other installation and activation costs are expensed as incurred.

Postpaid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Traffic and value-added services
Prepaid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain prepaid products allow the carry over of unused minutes; revenue related to the carry over of unused minutes is deferred until usage or expiration. Payphone service revenue is recognised when the service is provided. Community phone revenue, collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. Interconnection revenue for call termination, call transit, and network usage are recognised in the period the traffic occurs. Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided. Revenue related to products and value-added services is recognised upon delivery and acceptance of the product or service.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Incentives are based on sale volume and value. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Equipment sales
Revenue from the sales of communication equipment is recognised upon delivery and acceptance by the customer.

Other
Dividends from investments are recognised on the date that the Company is entitled to the dividend. Interest is recognised on a time proportion basis taking into account the principal amount outstanding and the effective interest rate.

Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease finance costs are expensed

2. Significant accounting policies (continued)

in the income statement over the lease term using the effective interest rate method. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the income statement over the term of the lease.

Marketing

Marketing costs are recognised as an expense as incurred.

Comparatives

Certain comparative figures have been reclassified in accordance with current period classifications and presentation. These reclassifications have no effect on the prior year net profit. The current period classifications more closely resemble the nature of the transactions within the Company's operating structure. The reclassifications were made in Note 3, 5 and cash flow. The principal reclassifications were to reflect certain other benefits as part of salaries and wages (Note 5.1), to show certain payments to other operators' net of revenue and to reflect impairments and write-offs as part of the depreciation charge.

Changed from	Changed to	2003 Rm	Reference
Payments to other operators	Operating revenue	93	Note 5.2 and 3
Selling, general and administrative expenses	Depreciation, amortisation, impairment and write-offs	189	Note 5.3 and 5.6
Operating leases – Vehicles	Security and other	81	Note 5.5 and 5.4
Accounts receivable (movement)	Dividend received from joint venture	300	Cash flow and Note 25

Notes to the annual financial statements

for the two years ended March 31, 2004

		2003 Rm	2004 Rm
3.	**Operating revenue**	28,858	**30,175**
	Subscriptions, connections and other usage	4,595	**5,024**
	Traffic	18,001	**18,313**
	Domestic (local and long distance)	9,178	**9,680**
	Fixed-to-mobile	7,539	**7,321**
	International (outgoing)	1,284	**1,312**
	Interconnection	1,762	**1,643**
	Data	4,425	**5,032**
	Other	75	**163**
4.	**Other income**	198	**91**
	Profit on disposal of investment	88	**20**
	Profit on disposal of property, plant and equipment	15	**22**
	Sundry	95	**49**
5.	**Operating expenses**		
	Operating expenses comprise:		
5.1	Employee expenses	6,563	**6,600**
	Salaries and wages	4,698	**4,678**
	Medical aid contributions	389	**400**
	Retirement contributions	421	**423**
	Retirement and pension fund	18	**22**
	Current service cost	3	**3**
	Interest cost	321	**297**
	Expected return on plan assets	(507)	**(452)**
	Unrecognised (gain)/loss	(46)	**2**
	Asset limitation	247	**172**
	Post-retirement medical aid	256	**272**
	Current service cost	14	**23**
	Interest cost	225	**247**
	Actuarial gain	(5)	**–**
	Curtailment loss	22	**2**
	Retirement and pension fund deficit	40	**44**
	Interest cost	86	**44**
	Curtailment gain	(9)	**–**
	Realisation of fund reserve	(37)	**–**
	Sick leave	34	**(11)**
	Telephone rebates	16	**2**
	Current service cost	3	**4**
	Interest cost	24	**19**
	Actuarial gain	(11)	**(21)**
	Other benefits	945	**982**
	Restructuring expense	244	**301**
	Employee expenses capitalised	(498)	**(513)**

	2003 Rm	**2004 Rm**
5. Operating expenses (continued)		
5.1 Employee expenses (continued)		

Curtailment loss/(gain)
The curtailment loss/(gain) resulted from a reduction in the number of participants covered by the retirement and pension funds and the post-retirement medical aid. This, in turn, resulted in a required adjustment to the present value of the obligation.

Other benefits
Other benefits include transfer costs, annual leave, performance, incentive and service bonuses.

Restructuring expense
The Company recognises the cost of restructuring charges associated with management's plan to reduce the size of its workforce to a comparable level for world-class telecommunication companies.

The total number of employees who left the Company is 1,633 (2003: 2,124). These employees include management, corporate and operating staff. For 312 of these employees, March 31, 2004 was their last working day.

Change in comparatives
R751 million has been reclassified from other benefits to salaries and wages, which included motor and housing allowances.

	2003 Rm	**2004 Rm**
5.2 Payments to other operators	6,628	**6,062**
5.3 Selling, general and administrative expenses	2,864	**2,385**
Selling and administrative expenses	646	**489**
Maintenance	1,932	**1,604**
Marketing	286	**292**
5.4 Services rendered	2,568	**2,196**
Facilities and property management	1,233	**1,163**
Consultancy services – managerial fees	367	**175**
Security and other	854	**806**
Auditor's remuneration	114	**52**
Audit services	38	**36**
Company auditors	38	**32**
Current year	28	**31**
Prior year underprovision	10	**1**
Other auditors – current year	–	**4**
Audit related services		
Company auditors – current year	–	**4**
Other services		
Company auditors – current year	5	**7**
Telkom SA Limited IPO related fees	71	**5**
Company auditors	42	**–**
Current year	32	**–**
Prior year underprovision	10	**–**
Other auditors	29	**5**

Audit related services include the review of system implementations and accounting opinions.
Other services consist mainly of assistance received with the requirements of the Sarbanes Oxley Act.

Change in comparatives
R147 million has been reclassified from consultancy services to facilities and property management.

Notes to the annual financial statements
for the two years ended March 31, 2004

		2003 Rm	**2004 Rm**
5.	**Operating expenses (continued)**		
5.5	Operating leases	1,062	**864**
	Buildings	232	**155**
	Equipment	61	**82**
	Vehicles	769	**627**
5.6	Depreciation, amortisation, impairment and write-offs	5,266	**5,927**
	Depreciation of property, plant and equipment	5,032	**5,577**
	Freehold buildings	270	**274**
	Leasehold buildings	15	**43**
	Network equipment	3,074	**3,407**
	Support equipment	430	**477**
	Furniture and office equipment	30	**32**
	Data processing equipment and software	1,177	**1,308**
	Other	36	**36**
	Amortisation of intangible assets		
	Trademarks and copyrights	45	**–**
	Property, plant and equipment impairment and write-offs (Note 9)	189	**350**
	Impairment	–	**149**
	Write-offs	189	**201**
6.	**Investment income**	736	**1,525**
	Interest received	307	**352**
	Interest received from joint venture	84	**22**
	Dividends received	345	**1,151**
7.	**Finance charges**	3,758	**3,155**
	Interest	2,692	**2,356**
	Local debt	2,465	**2,121**
	Foreign debt	375	**303**
	Less: Finance costs capitalised	(148)	**(68)**
	Foreign exchange gains and losses and fair value adjustments	1,066	**799**
	Foreign exchange gains	(719)	**(407)**
	Fair value adjustments on derivative instruments	1,785	**1,206**
	Capitalisation rate	13.56%	**15.14%**

	2003 Rm	**2004 Rm**
8. Taxation	375	**719**
Deferred taxation	375	**719**
Temporary differences – normal company taxation	339	**991**
Temporary differences – Secondary Taxation on Companies tax credits	–	**(199)**
Underprovision/(overprovision) for prior year	36	**(73)**

No provision has been made for South African normal company tax as the Company has an estimated tax loss as disclosed in Note 12.
No STC has been provided as the tax credits for dividends received exceed dividends declared.

Reconciliation of taxation rate	%	**%**
Effective rate	34.7	**15.6**
South African normal rate of taxation	30.0	**30.0**
Adjusted for:	4.7	**(14.4)**
Exempt income	(12.5)	**(10.4)**
Disallowable expenditure	13.9	**1.9**
Secondary Taxation on Companies tax credits	–	**(4.3)**
Underprovision/(overprovision) for prior year	3.3	**(1.6)**

	2003			**2004**		
	Cost Rm	Accumulated depreciation Rm	Carrying value Rm	**Cost Rm**	**Accumulated depreciation Rm**	**Carrying value Rm**
9. Property, plant and equipment						
Freehold land and buildings	3,800	(1,099)	2,701	**4,128**	**(1,363)**	**2,765**
Leasehold buildings (Note 19)	380	(139)	241	**434**	**(182)**	**252**
Network equipment	47,208	(20,481)	26,727	**48,036**	**(23,269)**	**24,767**
Support equipment	3,312	(1,960)	1,352	**3,488**	**(2,301)**	**1,187**
Furniture and office equipment	315	(149)	166	**335**	**(181)**	**154**
Data processing equipment and software	6,745	(3,881)	2,864	**7,782**	**(4,811)**	**2,971**
Under construction	1,464	–	1,464	**1,333**	**–**	**1,333**
Other	283	(183)	100	**265**	**(202)**	**63**
	63,507	(27,892)	35,615	**65,801**	**(32,309)**	**33,492**

	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Impairment and write-offs Rm	Disposals Rm	Depreciation Rm	Carrying value at end of year Rm
9. Property, plant and equipment (continued)							
The carrying amounts of property, plant and equipment can be reconciled as follows:							
2004							
Freehold land and buildings	**2,701**	**61**	**287**	**(5)**	**(5)**	**(274)**	**2,765**
Leasehold buildings	**241**	**54**	**–**	**–**	**–**	**(43)**	**252**
Network equipment	**26,727**	**400**	**1,395**	**(333)**	**(15)**	**(3,407)**	**24,767**
Support equipment	**1,352**	**66**	**250**	**(4)**	**–**	**(477)**	**1,187**
Furniture and office equipment	**166**	**–**	**21**	**(1)**	**–**	**(32)**	**154**
Data processing equipment and software	**2,864**	**275**	**1,145**	**(5)**	**–**	**(1,308)**	**2,971**
Under construction	**1,464**	**2,968**	**(3,099)**	**–**	**–**	**–**	**1,333**
Other	**100**	**–**	**1**	**(2)**	**–**	**(36)**	**63**
	35,615	**3,824**	**–**	**(350)**	**(20)**	**(5,577)**	**33,492**
2003							
Freehold land and buildings	2,698	18	257	(1)	(1)	(270)	2,701
Leasehold buildings	256	–	–	–	–	(15)	241
Network equipment	26,266	1,151	2,494	(103)	(7)	(3,074)	26,727
Support equipment	1,456	234	94	(2)	–	(430)	1,352
Furniture and office equipment	182	7	7	–	–	(30)	166
Data processing equipment and software	3,190	144	737	(27)	(3)	(1,177)	2,864
Under construction	2,699	2,415	(3,590)	(54)	(6)	–	1,464
Other	137	–	1	(2)	–	(36)	100
	36,884	3,969	–	(189)	(17)	(5,032)	35,615

The average time taken to construct assets varies from three to four months.
Full details of land and buildings are available for inspection at the registered office of the Company.

	2003 Rm	**2004 Rm**
Impairment and write-offs of assets	189	**350**
Assets under construction	54	**–**
Assets under construction written off	54	**–**
Data processing equipment and software	27	**5**
The Company assessed its software in 2003 which resulted in the write-off of computer software	27	**–**
Data processing equipment and software written off	–	**5**
Network equipment	103	**333**
The Company raised an impairment for an earth station. This asset was developed to route traffic between the Public Switch Telephone Network ("PSTN") of Telkom and the Satellite Access Node ("SAN") of a satellite company. The satellite company has not met its current outstanding financial obligations to Telkom and management is of the opinion that no future payments will be received. Management has assessed the asset and it appears unlikely that there will be future economic benefits flowing to the Company to recover the carrying value.	–	**149**
Decommissioned and obsolete equipment written off	103	**184**
Other		
Support equipment and other assets written off	5	**12**

	2003 Cost Rm	2003 Accumulated amortisation Rm	2003 Carrying value Rm	**2004 Cost Rm**	**2004 Accumulated amortisation Rm**	**2004 Carrying value Rm**
10. Intangible assets						
Trademarks and copyrights	52	(52)	–	**52**	**(52)**	**–**

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

	Carrying value at beginning of year Rm	**Additions Rm**	**Amortisation Rm**	**Carrying value at end of year Rm**
2004				
Trademarks and copyrights	**–**	**–**	**–**	**–**
2003				
Trademarks and copyrights	30	15	(45)	–

In 2003 management reassessed the expected future economic benefit of the intellectual property included in trademarks and copyrights. Based on this assessment management expected these intangible assets to have no useful life beyond year-end, which resulted in an increased amortisation for that year.

	2003 Rm	**2004 Rm**
11. Investments	1,228	**1,715**
Joint venture		
Vodacom Group (Proprietary) Limited	460	**–**
50% shareholding at cost (R50)	–	**–**
Loan	460	**–**

The loan to Vodacom was unsecured and bore interest at a rate of prime plus 2% (2003: prime plus 2%).
The average effective interest rate during the year was 18.74% (2003: 18.35%).

	2003 Rm	**2004 Rm**
11. Investments (continued)		
Subsidiaries	259	**479**
Q-Trunk (Proprietary) Limited	–	**–**
100% shareholding at cost	10	**10**
Loan	50	**40**
Impairment	(60)	**(50)**
Swiftnet (Proprietary) Limited	92	**63**
100% shareholding at cost	33	**31**
Prime minus 1% Cumulative redeemable preference shares	45	**45**
Loan	47	**18**
Impairment	(33)	**(31)**
TCI	–	**–**
100% shareholding at cost (R12)	–	**–**
Intekom (Proprietary) Limited	–	**–**
100% shareholding at cost	10	**10**
Loan	24	**17**
Impairment	(34)	**(27)**
Telkom Directory Services (Proprietary) Limited	167	**167**
64.90% (2003: 64.90%) shareholding at cost	167	**167**
Rossal No 65 (Proprietary) Limited	–	**249**
100% (2003: Nil%) shareholding at cost (R100)	–	**–**
Advance	–	**249**

During the 2004 financial year the Company acquired a 100% shareholding in Rossal No 65 (Proprietary) Limited. This company will be utilised to administer, on behalf of Telkom SA Limited, the Telkom Employee Conditional Share Plan.

The aggregate directors' valuation of the above subsidiaries and joint venture is R4,090 million (2003: R3,720 million) based on net asset value.

The Company has deferred its right to claim or accept payment of the loans to Q-Trunk (Proprietary) Limited, Swiftnet (Proprietary) Limited and Intekom (Proprietary) Limited in favour of all other creditors in the event of the liquidation of the companies or similar event.

The loans to Q-Trunk (Proprietary) Limited and Intekom (Proprietary) Limited are unsecured, interest free and have no fixed repayment terms.

The loan to Swiftnet (Proprietary) Limited is unsecured, of which R15 million is interest free and the remainder bears interest at prime (2003: prime plus 2%). The average effective interest rate per annum was 13.89% (2003: 18.35%).

In order to comply with the licence requirements, the Company is considering alternatives for the sale of a 30% stake in Swiftnet (Proprietary) Limited, its wholly owned subsidiary.

	2003 Rm	2004 Rm
11. Investments (continued)		
Available for sale		
Unlisted investments	9	–
Inmarsat	9	–
Nil% (2003: 0.30%) interest in International Mobile Satellite Services Organisation, headquartered in London, United Kingdom, at cost.		
Telkom disposed of its investment effective December 16, 2003.		
Rascom	–	–
1.07% (2003: 1.07%) interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast at cost.		
Cost	1	1
Impairment	(1)	(1)
The fair value of the unlisted investments cannot be practicably determined. The directors' valuations are based on the Company's interest in the entities' net asset values converted at year-end exchange rates.		
The aggregate directors' valuation of the above unlisted investments is RNil (2003: R20.2 million) based on the net asset values.		
Listed Investments	40	49
New Skies N.V.	40	49
0.89% (2003: 0.89%) interest in New Skies Satellite N.V., headquartered in The Hague, Netherlands at fair value.		
Market value: R49 million (2003: R40 million).		
Other unlisted investments	920	1,160
Special Purpose Entity		
Cost	920	1,160
The investment in the cell captive will be used to fund the post-retirement medical aid liability.		
Directors' valuation: R1,407 million (2003: R973 million).		
Loans and receivables	–	46
Tel.One (Pvt) Limited	–	46
The loan to Tel.One (Pvt) Limited is unsecured, interest free and will be repaid through traffic revenue from June 2004 over 5 years.		
Less: Short-term investments	(460)	(19)
Tel.One (Pvt) Limited	–	(10)
Loan to Vodacom Group (Proprietary) Limited	(460)	–
Swiftnet (Proprietary) Limited	–	(9)

	2003 Rm	2004 Rm
12. Deferred taxation	372	**(347)**
Opening balance	747	**372**
Income statement movements	(375)	**(719)**
Temporary differences	(339)	**(792)**
Tax losses	135	**(963)**
Capital allowances	(479)	**114**
Provisions and other allowances	5	**(142)**
Secondary Taxation on Companies tax credits	–	**199**
(Overprovision)/underprovision prior year	(36)	**73**
The balance comprises:	372	**(347)**
Tax losses	1,206	**244**
Capital allowances	(2,268)	**(2,158)**
Provisions and other allowance	1,434	**1,368**
Secondary Taxation on Companies tax credits	–	**199**
Deferred tax balance is made up as follows:	372	**(347)**
Deferred tax assets	372	**199**
Deferred tax liabilities	–	**(546)**
Tax losses available for set-off against future taxable profits	4,019	**813**
Unutilised STC credits	945	**1,594**

Under South African tax legislation, tax losses for companies continuing to do business do not expire.

Secondary Taxation on Companies ("STC") is provided for at a rate of 12.5% on the amount by which dividends declared by the Company exceeds dividends received. It is recorded as a tax expense when dividends are declared. A deferred tax asset has been created in respect of the STC credits on past dividends received not utilised against dividends declared for the year ended March 31, 2004 as it is now considered probable that it will be utilised in the future.

	2003 Rm	2004 Rm
13. Other financial instruments	1,278	**609**
Held-to-maturity		
Repurchase agreement	222	**12**
Held-for-trading	1,056	**597**
Bills of exchange	(68)	**19**
Derivative instruments (Note 32)	1,124	**578**
Other financial instruments are made up as follows:	1,278	**609**
Other financial assets	1,740	**1,070**
Other financial liabilities	(462)	**(461)**

		2003 Rm	2004 Rm
13. Other financial instruments (continued)			

Repurchase agreements

The Company actively manages a portfolio of repurchase agreements in the South African capital and money markets, with a view to generating additional investment income on the favourable interest rates provided on these transactions. Interest received from the borrower is based on the current market-related yield.

		2003 Rm	2004 Rm
2004			
Maturity period	Yield		
7 days	9.21%		12
2003			
Maturity period	Yield		
1 day	11.12% – 11.54%	151	
7 days	10.38%	71	
		222	

Due to the short-term nature of these transactions and the fact that the transactions are initiated based on market-related interest rates, the carrying value approximates the fair value. Collateral in the form of publicly traded bonds has been received in respect of the above transaction.

The terms and conditions of these transactions are governed by signed International Securities Market Association ("ISMA") agreements with all counter parties and the regulations of the Bond Exchange of South Africa ("BESA").

Bills of exchange

The fair value of bills of exchange has been derived at with reference to BESA quoted prices.

	2003 Rm	2004 Rm
14. Income tax receivable	276	–
Tax receivable	236	–
Interest accrued	40	–

Income tax receivable related to an overpayment of estimated tax in respect of the 1999 tax year. A refund has been received from the South African Revenue Service.

	2003 Rm	2004 Rm
15. Inventories	451	**322**
Gross inventories	502	**360**
Provision for obsolete inventories	(51)	**(38)**
Inventories consist of the following categories:	451	**322**
Installation, maintenance material and network equipment	369	**251**
Merchandise	82	**71**
Provision for obsolete inventories	51	**38**
Opening balance	40	**51**
Charged to selling, general and administrative expenses	92	**13**
Write-off against provision	(81)	**(26)**

		2003 Rm	**2004 Rm**
16.	**Trade and other receivables**	4,887	**4,868**
	Trade receivables	4,106	**3,680**
	Gross trade receivables	4,349	**3,906**
	Provision for doubtful debts	(243)	**(226)**
	Prepayments and other receivables	781	**1,188**
	Provision for doubtful debts	243	**226**
	Opening balance	519	**243**
	Charged to selling, general and administrative expenses	215	**228**
	Write-off against provision	(491)	**(245)**
17.	**Net cash and cash equivalents**	461	**1,975**
	Cash and bank balances	260	**11**
	Short-term deposits	201	**1,999**
	Cash shown as current assets	461	**2,010**
	Credit facilities utilised	–	**(35)**
	Undrawn borrowing facilities	976	**1,083**

The undrawn borrowing facilities are unsecured, bear interest at a rate linked to prime, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity.

Borrowing powers

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

18. Share capital and premium

Authorised and issued share capital and share premium are made up as follows:

	2003 Rm	**2004 Rm**
Authorised	10,000	**10,000**
999,999,998 (2003: 999,999,998) ordinary shares of R10 each	10,000	**10,000**
1 (2003: 1) class A ordinary share of R10	–	**–**
1 (2003: 1) class B ordinary share of R10	–	**–**
Issued and fully paid	8,293	**8,293**
557,031,817 (2003: 557,031,817) ordinary shares of R10 each	5,570	**5,570**
1 (2003: 1) class A ordinary share of R10	–	**–**
1 (2003: 1) class B ordinary share of R10	–	–
Share premium	2,723	**2,723**

Pursuant to a special resolution passed at the Annual General Meeting of Telkom held on January 27, 2003, Telkom's authorised and issued share capital was altered by the conversion of one ordinary share held by Government into one class A ordinary share with a par value of R10 and one ordinary share held by Thintana Communications into one class B ordinary share with a par value of R10.

The class A and B ordinary shares rank equally with the ordinary shares in respect of rights to dividends but differ in respect of the right to appoint directors. Full details of the voting rights of ordinary, class A and class B shares can be obtained from the Articles of Association of the Company.

The unissued shares are under the control of the directors until the next Annual General Meeting.

The directors have been given the authority to buy back the Company's own shares up to a limit of 20% of the total share capital.

3,185,736 ordinary shares in Telkom, with a fair value of R251 million are currently held by its subsidiary Rossal No 65 (Proprietary) Limited.

	2003 Rm	**2004 Rm**
18. Share capital and premium (continued)		
Preliminary listing costs	–	**–**
Preliminary listing costs represent costs incurred in 2002 by the Company in preparation for the initial public offering. These costs were deferred to be written off against share premium when new shares were issued. However, this was expensed on September 30, 2002 as the Board decided not to issue additional shares on date of listing.		
19. Interest-bearing debt	16,633	**12,142**
(a) Local debt	16,046	**11,029**
Locally registered Telkom debt instruments	14,482	**9,460**
Name, maturity, rate p.a., nominal value		
TK01, 2008, 10%, R4,609 million (2003: R4,491 million)	3,566	**3,812**
TL08, 2004, 13%, R2,299 million (2003: R3,500 million)	3,368	**2,286**
TL03, 2003, 10.75%, RNil (2003: R4,311 million)	4,306	**–**
TL06, 2006, 10.5%, R1,500 million (2003: R1,500 million)	1,484	**1,488**
TL20, 2020, 6%, R2,500 million (2003: R2,500 million)	1,136	**1,155**
PP02, 2010, 0%, R430 million (2003: R430 million)	152	**174**
PP03, 2010, 0%, R1,350 million (2003: R1,350 million)	470	**545**
Local bonds		
The local Telkom bonds are unsecured, but contain a number of restrictive covenants, which limit Telkom's ability to create encumbrances on revenues or assets, and to secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness. TL20 loan stock contains restrictive financial covenants.		
Telkom is a buyer or seller of last resort in the Telkom bond TK01. To eliminate the resultant exposure Telkom sells or buys government bonds. The objective of the hedging relationship is to eliminate price risk whereby value changes on the TK01 transactions are in total offset by value changes in the government stock.		
Repurchase agreements	167	**27**
Commercial paper bills 2003 – 2005, 13.5% to 15.13%, R1,708 million (2003: R1,766 million).	1,397	**1,542**
(b) Foreign debt	4,455	**3,988**
United States Dollar: 2002 – 2003, 3.14%, $Nil (2003: $1.2 million)	10	**–**
Euro: 2002 – 2005, 0.10% to 7.13%, €512 million (2003: €512 million)	4,445	**3,988**
(c) Finance leases	672	**754**
Finance leases are secured by land and buildings with a book value of R252 million (2003: R241 million) (Note 9). These amounts are repayable within periods ranging from 4 to 15 years. Interest rates vary between 13.44% and 15.28% (2003: 13.44%) (Note 30)		
Less: Current portion of interest-bearing debt	(4,540)	**(3,629)**
Local debt	(4,527)	**(3,626)**
Locally registered Telkom debt instruments	(4,306)	**(2,286)**
Repurchase agreements	(167)	**(27)**
Commercial paper bills	(54)	**(1,313)**
Foreign debt	(13)	**(3)**

		2003 Rm	2004 Rm
19.	**Interest-bearing debt (continued)**		
	Included in long-term and short-term debt is:		
	Guaranteed debt		
	By the South African Government	3,683	**3,906**
	A major portion of the guaranteed debt relates to the TK01 debt instrument.		

The Company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. These borrowing powers are set out in the Company's Articles of Association.

Repurchase agreements

The Company actively manages a portfolio of repurchase agreements in the South African capital and money markets with a view to financing short-term liquidity gaps. Interest paid by the Company is based on the current market-related yield.

2004

Maturity period	Yield	2003 Rm	2004 Rm
7 days	9.3%		**27**

2003

Maturity period	Yield	2003 Rm	2004 Rm
1 day	10.8% – 11.54%	167	

Due to the short-term nature of these transactions and the fact that the transactions are initiated based on market-related interest rates, the carrying value approximates the fair value.

Collateral in the form of publicly tradable bonds has been delivered in respect of the above transactions.

The terms and conditions of these transactions are governed by signed ISMA agreements with all counter parties and the regulations of the BESA. The fair value has been derived with reference to BESA quoted prices.

20. Repayment of total interest-bearing debt

	2003 Rm	2004 Rm
Total interest-bearing debt	21,173	**15,771**
Gross interest-bearing debt	25,142	**19,166**
Discount on debt instruments issued	(3,969)	**(3,395)**

Year repayable	2003 Total Rm	2004 Foreign Rm	2004 Local Rm	2004 Total Rm
2003/2004	4,549	**–**	**–**	**–**
2004/2005	4,949	**3**	**3,773**	**3,776**
2005/2006	4,603	**3,897**	**262**	**4,159**
2006/2007	1,503	**3**	**1,500**	**1,503**
2007/2008	4,491	**–**	**4,609**	**4,609**
2008/2009	–	**–**	**–**	**–**
Thereafter	5,047	**85**	**5,034**	**5,119**
	25,142	**3,988**	**15,178**	**19,166**

	2003 Rm	2004 Rm
21. Provisions	2,528	**2,425**
Employee related	4,073	**3,701**
Annual leave	384	**368**
Balance at beginning of year	437	**384**
Charged to employee expenses	107	**158**
Leave utilised or paid	(160)	**(174)**
Medical aid (Note 24)	2,277	**2,405**
Balance at beginning of year	2,154	**2,277**
Interest cost	225	**247**
Current service cost	14	**23**
Actuarial gain	(5)	**–**
Settlement and curtailment loss	22	**2**
Termination settlement	(13)	**(9)**
Contributions	(120)	**(135)**
Retirement and pension fund deficits	474	**–**
Balance at beginning of year	759	**474**
Repayment of the deficit	(325)	**(518)**
Interest cost	86	**44**
Curtailment gain	(9)	**–**
Realisation of fund reserve	(37)	**–**
Sick leave	349	**338**
Balance at beginning of year	315	**349**
Net current service cost	34	**(11)**
Telephone rebates (Note 24)	162	**164**
Balance at beginning of year	146	**162**
Interest cost	24	**19**
Current service cost	3	**4**
Actuarial gain	(11)	**(21)**
Bonus	427	**426**
Balance at beginning of year	132	**427**
Charged to employee expenses	381	**368**
Payment	(86)	**(369)**
Non-employee related	356	**38**
Supplier dispute (Note 31)	356	**–**
Balance at beginning of year	375	**356**
Released to selling, general and administrative expenses	(19)	**(356)**
Other	–	**38**

	2003 Rm	2004 Rm
21. Provisions (continued)		
Less: Current portion of provisions	(1,901)	**(1,314)**
Annual leave	(384)	**(368)**
Medical aid	(150)	**(150)**
Retirement and pension fund deficits	(221)	**–**
Sick leave	(349)	**(338)**
Telephone rebates	(14)	**(12)**
Bonus	(427)	**(426)**
Supplier dispute	(356)	**–**
Other	–	**(20)**

Annual leave

In terms of the Company's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 28 days. This is reviewed annually and is in accordance with legislation.

Sick leave

Sick leave provision is determined in accordance with the Company's policy. This represents amounts accrued to the benefit of the employees and may be paid, due to the inability of an employee to render services for an extended period due to illness.

Bonus

The bonus scheme consists of performance bonuses which are dependent on achievement of certain financial and non-financial targets. The bonus is payable once every year after the Company's results have been made public. To qualify employees must be in service on the financial results date.

Supplier dispute

Telkom provided RNil (2003: R356 million) including interest and legal fees for its estimate of a probable liability (Note 31).

	2003 Rm	2004 Rm
22. Trade and other payables	4,144	**4,436**
Trade payables	2,440	**2,368**
Finance cost accrued	532	**455**
Accruals	1,172	**1,613**
23. Deferred income	609	**636**

Included in deferred income is profit on the sale and leaseback of certain Telkom buildings of R162 million (2003: R173 million). A profit of R11 million is recognised in income on a straight-line basis, over the period of the lease ending 2019 (Note 30).

Notes to the annual financial statements

for the two years ended March 31, 2004

24. Employee benefits

The Company provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership is compulsory. In addition certain retired employees receive medical aid and a telephone rebate. All of the liabilities are actuarially determined and valuations performed at intervals not exceeding three years. Actuarial calculations are performed in the periods between valuations.

At March 31, 2004, the Company employed 32,358 employees (2003: 35,361), of which 312 represents employees affected by the restructuring.

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991. All employees who were members of the Government Service Pension Fund and Temporary Employees Pension Fund were transferred to a newly established Telkom Pension Fund. The deficits that existed in the aforementioned state funds were transferred to the Telkom Pension Fund. Legislation also made provision that Telkom would guarantee the financial obligations of the Telkom Pension Fund. The South African Government guaranteed the actuarially valued deficit of the Telkom Pension Fund as at September 20, 1991, plus interest as determined by the State Actuary. The Company can only benefit from the surplus through contribution holidays, if the funding level exceeds 100%. The most recent statutory valuation of the Telkom Pension Fund was performed as at March 31, 2002. The latest actuarial calculation performed at March 31, 2004 indicates that the pension fund is in a surplus funding position of R29 million.

With effect from July 1, 1995, the Telkom Pension Fund was closed to new members. The funded status of the Telkom Pension Fund is disclosed below:

	2003 Rm	**2004** **Rm**
Telkom Pension Fund		
Present value of funded obligation	162	**190**
Fair value of plan assets	(211)	**(219)**
Funded status	(49)	**(29)**
Unrecognised net actuarial loss	(50)	**(100)**
Unrecognised net assets	(99)	**(129)**
The surplus is not recognised due to the legal status of surpluses in South Africa		
Expected return on plan assets	28	**31**
Actuarial loss on plan assets	(28)	**(41)**
Actual return/(loss) on plan assets	–	**(10)**
Principal actuarial assumptions were as follows:		
Discount rate (%)	11.5	**10.0**
Expected return on plan assets (%)	14.0	**10.0**
Salary inflation rate (%)	8.0	**7.0**
Pension increase allowance (%)	4.7	**3.8**
Funding level per actuarial valuation (%)	94.0	**94.0**
The number of employees registered under the Telkom Pension Fund Plan	382	**339**

The Telkom Retirement Fund

The Telkom Retirement Fund was established on July 1, 1995 as a defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after July 1, 1995 were transferred to the Telkom Retirement Fund. At the same time the proportionate share of the deficit relating to the transferring employees and pensioners was transferred to the Telkom Retirement Fund. Upon the transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to July 1, 1995 further transfers of existing employees occurred. The most recent statutory valuation of the Telkom Retirement Fund was performed as at March 31, 2002.

The Telkom Retirement Fund is governed by the Pension Funds Act, Act No. 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced.

The Telkom Retirement Fund is a defined contribution fund with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom guarantees a minimum benefit to retirees that is based on their contributions and the performance of the defined contribution plan at retirement date. Increases in the benefit subsequent to an employee's retirement are also guaranteed.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund. The latest actuarial calculation performed at March 31, 2004 indicates that the retirement fund is in a surplus funding position of R378 million.

24. Employee benefits (continued)

In December 2001 the Pension Funds Second Amendment Act was promulgated.
The Act generally provides for:

- the payments of enhanced benefits to former members and minimum pension increases for pensioners; and
- the apportionment of any actuarial surplus existing in the fund, at the apportionment date, in an equitable manner between existing members, including pensioners, former members and the employer in such proportions as the trustees of the fund shall determine.

Until this process has been finalised, Telkom cannot recognise the surplus in the fund.

The funded status of the Telkom Retirement Fund is disclosed below.

Telkom Retirement Fund

	2003 Rm	**2004 Rm**
Deficit (Originated on transfer from Telkom Pension Fund on July 1, 1995 and transfers thereafter).		
Actuarial calculation/valuation	474	**–**
Present value of funded obligation	2,679	**3,162**
Fair value of plan assets	(3,106)	**(3,540)**
Funded status	(427)	**(378)**
Unrecognised net actuarial loss	(190)	**(382)**
Unrecognised net assets	(617)	**(760)**
Expected return on plan assets	479	**421**
Actuarial (loss)/gain on plan assets	(699)	**318**
Actual return on plan assets	(220)	**739**
Included in fair value of plan assets is:		
Office buildings occupied by Telkom	127	**127**
Telkom bonds	27	**46**
Telkom shares	28	**121**
Principal actuarial assumptions were as follows:		
Discount rate (%)	11.5	**10.0**
Expected return on plan assets (%)	14.0	**10.0**
Salary inflation rate (%)	8.0	**7.0**
Pension increase allowance (%)	4.7	**3.8**
Funding level per actuarial valuation (%)	84.0	**84.0**
The number of pensioners registered under the Telkom Retirement Fund Plan	13,756	**14,268**
The number of in-service employees registered under the Telkom Retirement Fund	34,974	**32,017**

Medical benefits

Telkom SA Limited makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in Note 5.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in Note 21. The Company has terminated future post-retirement medical benefits in respect of employees joining after July 1, 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ("Pre-94"); those who retired after 1994 ("Post-94"); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases annually with the average salary increase.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent valuation of the benefit was performed as at March 31, 2002. The next valuation for the fund will be in 2005. The Company has allocated certain investments to fund this liability as set out in Note 11. These investments do not qualify as plan assets.

	2003 Rm	**2004 Rm**
24. Employee benefits (continued)		
The status of the medial aid liability is disclosed below:		
Medical aid		
Present value of unfunded obligation	2,149	**2,359**
Unrecognised net actuarial gain	128	**46**
Liability as disclosed in the balance sheet (Note 21)	2,277	**2,405**
Principal actuarial assumptions were as follows:		
Discount rate (%)	11.5	**10.0**
Salary inflation rate (%)	8.0	**7.0**
Medical inflation rate (%)	10.5	**8.0**
Withdrawal rate (%)	30.0	**15.0**
Actual retirement age	65	**65**
Average retirement age	63	**63**
Number of members	26,935	**23,522**
Number of pensioners	8,159	**8,233**

Telephone rebates

Telkom SA Limited provides telephone rebates to its pensioners. The most recent valuation was performed in March 2004. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:

	2003 Rm	**2004 Rm**
Present value of unfunded obligation (Note 21)	162	**164**
Principal actuarial assumptions were as follows:		
Discount rate (%)	11.5	**10.0**
Rebate inflation rate (%)	8.0	**5.0**
Actual retirement age	65	**65**
Average retirement age	63	**63**
Number of members	23,427	**21,867**
Number of pensioners	14,023	**11,686**

Employee share awards

The Telkom shareholders approved the Telkom Employee Conditional Share Plan at the January 2004 Annual General Meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a RNil exercise price, at the end of the vesting period. The vesting period for the operational employees share award is 0% in year one, 33% in each of the years thereafter, while the management share award vests fully after three years. Although the number of shares allocated to employees will be communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met.

The Telkom Board approved the first grant of 3.2 million shares before year-end. The allocation to employees did, however, not take place in the current year. No consideration is payable on the shares issued to employees, but performance criteria will need to be met in order for the shares to vest.

Notes to the annual financial statements
for the two years ended March 31, 2004

		2003 Rm	**2004 Rm**
25.	**Reconciliation of profit after taxation to cash generated from operations**	8,360	**11,525**
	Profit after taxation	708	**3,883**
	Finance charges	3,758	**3,155**
	Taxation	375	**719**
	Investment income	(736)	**(1,525)**
	Listing costs	154	**–**
	Non-cash items	5,081	**5,113**
	Depreciation, amortisation, impairment and write-offs	5,266	**5,927**
	Decrease in provisions	(154)	**(764)**
	Profit on disposal of property, plant and equipment	(14)	**(22)**
	Profit on disposal of investment	(88)	**(20)**
	Share issue cost expensed	44	**–**
	Provision for losses on investments	27	**(8)**
	(Increase)/decrease in working capital	(980)	**180**
	Inventories	(38)	**143**
	Accounts receivable	108	**98**
	Accounts payable	(1,050)	**(61)**
26.	**Finance charges paid**	(2,617)	**(1,248)**
	Finance charges per income statement	(3,758)	**(3,155)**
	Non-cash items	1,141	**1,907**
	Movements in interest accruals	(557)	**451**
	Net discount amortised	592	**590**
	Fair value adjustment	1,793	**1,191**
	Unrealised loss	(687)	**(325)**
27.	**Taxation refunded**	844	**277**
	Net asset at beginning of year	1,080	**276**
	Interest accrual on tax receivable included in interest received	40	**1**
	Tax receivable closing balance	(276)	**–**
28.	**Dividends**		
	Dividend received	345	**701**
	Dividends received per income statement	345	**1,151**
	Dividends accrued for the previous year	300	**300**
	Dividends accrued for the current year	(300)	**(750)**
	Dividend paid	–	**(494)**
	Dividends declared	–	**(501)**
	Shareholders for dividends	–	**7**

29. Investment in subsidiaries

Acquisitions:
During the 2004 financial year the Company acquired a 100% shareholding in Rossal No 65 (Proprietary) Limited for R100. This company will be utilised to administer on behalf of Telkom SA Limited the Telkom Employee Conditional Share Plan.

	2003 Rm	2004 Rm
30. Commitments		
Capital commitments authorised	4,945	**4,550**
Commitments against authorised capital expenditure	104	**77**
Authorised capital expenditure not yet contracted	4,841	**4,473**

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

	Total Rm	<1 year Rm	1 – 5 years Rm	> 5 years Rm
Operating lease commitments				
2004				
Buildings	**371**	**104**	**233**	**34**
Rental receivable on buildings	**(253)**	**(65)**	**(141)**	**(47)**
Vehicles	**540**	**540**	**–**	**–**
Equipment	**34**	**20**	**14**	**–**
Total	**692**	**599**	**106**	**(13)**
2003				
Buildings	608	138	307	163
Rental receivable on buildings	(310)	(56)	(184)	(70)
Vehicles	719	719	–	–
Equipment	10	4	6	–
Total	1,027	805	129	93

Operating leases

The Company leases certain buildings, vehicles and equipment. The bulk of the lease terms negotiated for equipment-related premises are ten years with other leases signed for five and three years. The bulk of non-equipment-related premises are for leases of three to ten years. The majority of the leases normally contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 8% to 12%.

Penalties in terms of the lease agreements are only payable should Telkom vacate premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which the Company has no further use, no possibility of sub-lease and no option to cancel, are provided for in full.

The master lease agreement for vehicles is for a period of five years, and expires on March 31, 2005. In accordance with the agreement Telkom is not allowed to lease any similar vehicle as specified in the contract from any other service provider during the five-year period. The current contract does not have a forced renewal option. Any continued involvement after March 31, 2005 will be renegotiated at the time of expiry of the current contract. The contract is structured to have no lease increases on vehicles that are continually leased from the lessor. If a vehicle is, however, replaced by a new similar vehicle the lease payment is increased with a percentage increase based on the South African Consumer Index at the time. As there is no minimum usage clause in the master lease agreement, only the lease payments for the next year have been disclosed. The leases of individual vehicles are renewed annually.

	Total Rm	<1 year Rm	1 – 5 years Rm	> 5 years Rm
30. Commitments (continued)				
Finance lease commitments				
2004				
Lease payments	**2,116**	**77**	**396**	**1,643**
Finance charges	**(1,362)**	**(104)**	**(437)**	**(821)**
Minimum lease payments	**754**	**(27)**	**(41)**	**822**
Present value of the liability	**643**			
Finance charges capitalised	**111**			
Liability as disclosed in Note 19	**754**			
2003				
Lease payments	2,102	60	401	1,641
Finance charges	(1,430)	(92)	(518)	(820)
Minimum lease payments	672	(32)	(117)	821
Present value of the liability	639			
Finance charges capitalised	33			
Liability as disclosed in Note 19	672			

Finance lease

A major portion of the finance lease relates to the sale and leaseback of the Company's buildings. The lease term negotiated for the buildings is for a period of 25 years ending in 2019. The minimum lease payments are subject to an annual escalation of 10% per annum. Telkom has the right to sub-let part of the buildings. In case of breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.

Finance charges accruing on the Company's building leases exceed the lease payments for the next five years. Minimum lease payments for the next five years do not result in any income accruing to the Company.

	2003 Rm	**2004 Rm**
31. Contingencies		
Third parties	119	**33**
Guarantee of employee housing loans	192	**144**

Third parties

These amounts represent sundry disputes with third parties that are not individually significant. The Company does not deem it probable that the outcome of these disputes will lead to a financial loss to the Company.

Guarantee of employee housing loans

Telkom guarantees a certain portion of employees' housing loans. The amount guaranteed differs depending on facts such as employment period and salary rates. When an employee leaves the employment of the Company, any housing debt guaranteed by Telkom is settled before any pension payout can be made to the employee. The maximum amount of the guarantee in the event of the default is as disclosed above.

31. Contingencies (continued)

Supplier dispute

Expenditure of R594 million was incurred up to March 31, 2002 for the development and installation of an integrated end-to-end customer assurance and activation system to be supplied by Telcordia. In the 2001 financial year, the agreement with Telcordia was terminated and in that year, the Company wrote off R119 million of this investment. Following an assessment of the viability of the project, the balance of the Telcordia investment was written off in the 2002 financial year. During March 2001, the dispute was taken to arbitration, where Telcordia was seeking approximately US$130 million plus interest at a rate of 15,50% per year for money outstanding and damages. In September 2002, a partial ruling was issued by the arbitrator in favour of Telcordia. On November 5, 2002, Telkom brought an application in the High Court in South Africa to review and set aside the partial award. The hearing of the review application commenced on August 11, 2003. Judgement in Telkom's favour was handed down on November 27, 2003. Telcordia, however, brought an application for leave to appeal on April 28, 29 and 30, 2004. On May 3, 2004, the High Court dismissed the application by Telcordia and ordered Telcordia to pay the legal costs of Telkom, including the cost of two counsel. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial ruling, which petition Telkom has successfully resisted. Telcordia, however, have since filed a notice to appeal against the decision of the District Court of Columbia, which appeal was heard on April 1, 2004. The court dismissed the appeal by Telcordia, on April 9, 2004. The dispute between Telkom and Telcordia and the amount of Telkom's liability, if any, are not expected to be finalised until late 2004 or early 2005. As Telkom no longer believes it has a probable obligation, it has provided US$Nil (March 31, 2003: US$44 million) for its estimate of liabilities, which includes interest and legal fees.

Competition Commission

The South African Value Added Network Services Association ("SAVA"), an association of value added network service ("VANS") providers, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. Certain of the complaints have been referred to the Competition Tribunal by the Competition Commission for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, alleged refusal to lease access facilities to VANS providers, alleged discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers.

A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The Competition Commission has to date not imposed the maximum penalty.

Telkom has brought an application in the High Court in respect of the Competition Tribunal's jurisdiction to adjudicate this matter, on the basis that:

- the Competition Tribunal should not decide on the nature of Telkom's rights as contained in the Telecommunication Act, 1996 (as amended) as well as Telkom's various licences; and
- several of the complaints are already the subject of matters still pending at the Independent Communication Authority of South Africa ("ICASA"). Telkom argues that it is for the sectoral regulator, ICASA, to decide on the rights and obligations given to Telkom in terms of the Telecommunication Act and its PSTS licence.

Telkom is confident that it has not committed a prohibited practice as set out in the provisions of the Competitions Act as authorised by its PSTS licence. We do not expect the Competition Tribunal to adjudicate on this matter within the next two years.

Negative working capital ratio

For each of the financial years ended 2003 and 2004 the Company had a negative working capital ratio. A negative working capital ratio arises when current liabilities are greater than the current assets. Current liabilities are intended to be financed from operating cash flows, new borrowings and borrowings available under existing credit facilities.

32. Financial instruments and risk management

Concentration of risks

The Company is party to collective bargaining agreements with unions covering the employment terms and conditions of a significant number of its employees. Telkom employees primarily belong to the Communication Workers Union and the Alliance of Telkom Union. These employees are bound to follow the decisions of the Union. The Company has a good working relationship with the unions and to date, there have been no significant disruptions to operations due to union activities.

The Company has various commercial contracts with suppliers of goods and services which at a high level can be classified into IT, Network, Commercial (inclusive of outsourced entities), Training and other. Risk reviews are conducted on a quarterly basis, while formal assessments are conducted on an annual basis. If specific risks are highlighted during a review, a formal assessment is conducted immediately. Risk exposure is evaluated against the following criteria:

- the value of the contract/Company spend to date;
- impact of suppliers/service providers on key strategic initiatives of the Company;
- level/intensity of associated maintenance/support received from technology suppliers;
- the period that a specific technology has already been introduced into the network;
- the extent of customisation by the Company on standard technical functionality provided by supplier/service provider;
- level of foreign exposure in currency associated with the product/service offering; and
- inherent business and financial risk associated with a supplier.

The Company is currently one of two holders of a licence to provide public switched telephony services within South Africa. The customer base is diverse and spread across the country. A licence has been awarded to the second network operator which is as yet not in operation. Telkom has embarked on a process of signing long-term contracts with significant customers.

Exposure to continuously changing market conditions has highlighted the importance of financial risk management as an element of control for the Company. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors.

The Company holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments like trade receivables and payables, arise directly from the Company's operations.

The Company finances its operations primarily by a mixture of issued share capital, retained profit, long-term and short-term loans. The Company uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts. The Company does not speculate in derivative instruments.

Interest rate risk management

Interest rate risk arises from the repricing of the Company's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The Company's policy is to manage interest cost through the utilisation of a mix of fixed and variable rate debt. In order to manage this mix in a cost efficient manner, the Company makes use of interest rate derivatives as approved in terms of Company policy. Fixed rate debt represents approximately 89.46% (2003: 92.06%) of the total consolidated debt, after taking the instruments listed below into consideration. The debt profile of mainly fixed rate debt has been maintained to limit the Company's exposure to interest rate increases given the size of the Company's debt portfolio.

	Floating rate	Fixed rate			Total
		< 1 year	1 – 5 years	>5 years	
	Rm	Rm	Rm	Rm	Rm
Interest rate repricing profile for interest-bearing debt:					
2004					
Borrowings	**1,662**	**2,286**	**9,195**	**2,628**	**15,771**
Percentage of borrowings	**10.54%**	**14.50%**	**58.30%**	**16.66%**	**100.00%**
2003					
Borrowings	1,681	4,306	12,755	2,430	21,172
Percentage of borrowings	7.94%	20.34%	60.24%	11.48%	100.00%

Borrowings do not include credit facilities utilised of R35 million (2003: RNil), which are floating rate debt.

The effective interest rate for the year was 15.14% (2003: 13.56%). At March 31, 2004 the Company did not have a significant interest rate risk exposure on financial assets.

In order to hedge specific exposure in the interest rate repricing profile of existing borrowings and anticipated peak additional borrowings, the Company makes use of interest rate derivatives as approved in terms of Company policy.

	Average maturity	Currency	Notional amount m	Weighted average coupon rate
32. Financial instruments and risk management (continued)				
The table below summarises the interest rate swaps outstanding as at:				
2004				
Interest rate swaps				
Pay fixed	**< 1 year**	**ZAR**	**150**	**12.92%**
	1 – 5 year	**ZAR**	**1,000**	**14.67%**
2003				
Interest rate swaps				
Pay fixed	1 – 5 years	ZAR	1,150	14.44%

The floating rate is based on the three months JIBAR, and is settled quarterly in arrears. The interest rate swaps cover refinancing price risk on the commercial paper bill programme.

Credit risk management

Other financial assets and liabilities

The risk arises from derivative contracts entered into with financial institutions. The maximum exposure to the Company from counterparties is a net favourable position of R835 million (2003: R1,376 million). No collateral is required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. The Company limits its exposure to any counterparty and exposures are monitored daily. The Company expects that all counterparties will meet their obligations.

Trade receivables

Credit limits are set on an individual entity basis. Management reduces the risk of unrecoverable debt by improving credit management through credit checks and levels. Trade receivables comprise a large widespread customer base, covering residential, business and corporate customer profiles. Credit checks are performed on all customers on application for new services, and on an ongoing basis where appropriate.

Liquidity risk management

The Company is exposed to liquidity risk as a result of uncertain trade receivable related cash flows as well as capital commitments of the Company. Liquidity risk is primarily managed by the Corporate Finance division in accordance with policies and guidelines formulated by the Operating Committee. In terms of its borrowing requirements, the Company ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Company maintains a reasonable balance between the period assets generate funds and the period the respective assets are funded. Short-term liquidity gaps may be funded through repurchase agreements.

Foreign currency exchange rate risk management

The Company manages its foreign currency exchange rates by hedging all identifiable exposures via various financial instruments suitable to the Company's risk exposure.

Cross currency swaps and forward exchange contracts have been entered into to reduce the foreign currency exposure on the Company's operations and liabilities. The Company also enters into forward exchange contracts to hedge interest expense and purchase and sale commitments denominated in foreign currencies (primarily US Dollars and Euro). The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

32. Financial instruments and risk management (continued)

The table below reflects the currency and interest rate exposure of liabilities. Foreign currency debt is translated at the year-end exchange rates:

Liabilities

	Fixed rate Rm	Floating Rm	Interest-free Rm	Total Rm
2004				
Currency				
ZAR	**10,214**	**1,604**	**9,317**	**21,135**
Dollar	**–**	**–**	**341**	**341**
Euro	**3,895**	**94**	**148**	**4,137**
Other	**–**	**–**	**19**	**19**
	14,109	**1,698**	**9,825**	**25,632**
2003				
Currency				
ZAR	15,222	1,564	8,821	25,607
Dollar	–	10	659	669
Euro	4,338	107	68	4,513
Other	–	–	28	28
	19,560	1,681	9,576	30,817

Assets

There is no material foreign currency exposure for assets.

Forward exchange contracts

The following contracts relate to specific items on the balance sheet or foreign commitments not yet due. Foreign commitments not yet due consist of capital expenditure ordered but not yet received, future interest payments and loans denominated in foreign currency.

	< 1 year		1 – 5 years		> 5 years	
	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm
Average maturity years currency						
2004						
Buy foreign currency and sell ZAR						
United States Dollar	**226**	**1,669**	**22**	**226**	**–**	**–**
Pound Sterling	**7**	**92**	**–**	**–**	**–**	**–**
Euro	**73**	**646**	**54**	**369**	**–**	**–**
Swedish Krona	**20**	**19**	**–**	**–**	**–**	**–**
Japanese Yen	**30**	**2**	**–**	**–**	**–**	**–**
		2,428		**595**		**–**
Buy ZAR and sell foreign currency						
United States Dollar	**80**	**606**	**43**	**446**	**–**	**–**
Pound Sterling	**7**	**83**	**–**	**–**	**–**	**–**
Euro	**40**	**348**	**–**	**–**	**–**	**–**
Swedish Krona	**17**	**16**	**–**	**–**	**–**	**–**
Japanese Yen	**25**	**2**	**–**	**–**	**–**	**–**
		1,055		**446**		
Buy Euro and sell USD currency						
United States Dollar	**11**	**95**	**–**	**–**	**–**	**–**

32. Financial instruments and risk management (continued)

	< 1 year Foreign currency notional amount m	< 1 year Local currency amount Rm	1 – 5 years Foreign currency notional amount m	1 – 5 years Local currency amount Rm	> 5 years Foreign currency notional amount m	> 5 years Local currency amount Rm
2003						
Buy foreign currency and sell ZAR						
United States Dollar	240	2,119	40	408	–	–
Pound Sterling	5	67	–	–	–	–
Euro	31	306	57	422	–	–
Swedish Krona	39	38	–	–	–	–
Japanese Yen	66	5	–	–	–	–
		2,535		830		–
Buy ZAR and sell foreign currency						
United States Dollar	52	516	51	522	–	–
Pound Sterling	4	58	–	–	–	–
Euro	21	211	–	–	–	–
Swedish Krona	12	14	–	–	–	–
Japanese Yen	34	3	–	–	–	–
		802		522		–
Buy Euro and sell USD currency						
United States Dollar	14	123		–		–

	Average maturity	Receive	Average coupon	Pay	Average coupon
Currency swaps					
2004					
Receive fixed/pay fixed	**1 – 5 years**	**350 million EUR**	**7.13%**	**2,177 million ZAR**	**15.89%**
Receive fixed/pay floating	**1 – 5 years**	**100 million EUR**	**7.13%**	**630 million ZAR**	**JIBAR+2.30%**
2003					
Receive fixed/pay fixed	1 – 5 years	350 million EUR	7.13%	2,177 million ZAR	15.89%
Receive fixed/pay floating	1 – 5 years	100 million EUR	7.13%	630 million ZAR	JIBAR+2.30%

	2003 Carrying amount Rm	2003 Fair value Rm	2004 Carrying amount Rm	2004 Fair value Rm
32. Financial instruments and risk management (continued)				
Fair value of financial instruments				
Fair value of all financial instruments noted in the balance sheet approximates carrying value except as disclosed below. The estimated net fair values have been determined using available market information and appropriate valuation methodologies as outlined below.				
Liabilities				
Total interest-bearing debt	21,173	23,074	**15,771**	**17,880**
Derivatives (Note 13)				
Currency swap assets	1,269	1,269	**775**	**775**
Interest rate derivative liabilities	(145)	(145)	**(159)**	**(159)**
Foreign exchange derivatives – assets	249	249	**264**	**264**
Foreign exchange derivatives – liabilities	(249)	(249)	**(302)**	**(302)**
	1,124	1,124	**578**	**578**

The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

The fair values of borrowings are based on quoted prices or, where such prices are not available, expected future payments discounted at market interest rates.

The fair values of derivatives are determined using quoted prices or, where such prices are not available, discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivatives position at the balance sheet date. The fair values of listed investments are based on quoted market prices.

	2003 R	2004 R
Exchange rate table (closing rate)		
United States Dollar	8,010	**6,357**
Euro	8,676	**7,790**

33. Directors' interest

Ms. Mtshotshisa, the Chairperson of the Board of Directors, serves on the Board of Directors of Admiral Industries (Proprietary) Limited, which has a contract to supply Telkom with workwear. Telkom paid R5,446,845 for the year ended March 31, 2004 for these services. The outstanding creditors balance at year-end was R128,730.

Mr Sekano, the employee representative on Telkom's Board, is chairman of Letlapa Security and a director of Telesafe Security. Letlapa Security owns an interest in Telesafe Security, a security company which provides physical security services to Telkom. Telkom paid R39,328,027 to Telesafe Security for the year ended March 31, 2004 for these services. The outstanding creditors balance at year-end was R3,367,354.

Mr Valkin, one of Telkom's Board members, is a senior partner with the South African law firm of Bowman Gilfillan Inc., which provides legal services to Telkom from time to time. Telkom paid R90,000 to Bowman Gilfillan Inc. in the year ended March 31, 2004 for these services.

Messrs. McKenzie, Klug Sr., Valkin, Khai Tan and Tan Sri Dato'Ir. Md. Radzi, five of Telkom's Board members, are Thintana Communications' representatives on Telkom's Board of Directors.

Messrs. Mtshotshisa, Menell, Moyo, Sekano and Vilakazi, five of Telkom's Board members, are the Government's representatives on Telkom's Board of Directors.

	Beneficial Direct	Beneficial Indirect	Non-beneficial Direct	Non-beneficial Indirect
33. Directors' interest (continued)				
2004				
Executive – SE Nxasana	**373**	**223**	**446**	**223**
Non-executive	**–**	**–**	**–**	**16,700,276**
NE Mtshotshisa	**–**	**–**	**–**	**88**
MP Moyo*	**–**	**–**	**–**	**16,700,000**
TG Vilakazi	**–**	**–**	**–**	**188**
Total	**373**	**223**	**446**	**16,700,499**
2003				
Executive – SE Nxasana	223	223	446	223
Non-executive	–	–	–	33,411,231
NE Mtshotshisa	–	–	–	88
MP Moyo*	–	–	–	16,700,000
TA Sekano*	–	–	–	16,710,955
TG Vilakazi	–	–	–	188
Total	223	223	446	33,411,454

* The shares are beneficially owned by Old Mutual and Ucingo of which MP Moyo and TA Sekano are directors respectively.

The directors' shareholding did not change between the balance sheet date and the date of issue of the financial statements.

	2003 Rm	**2004 Rm**
Directors' emoluments	60	**48**
Executive		
For other services	59	**47**
Non-executive		
For services as directors	1	**1**

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	Fees R	Remu-neration R	Performance bonus R	Fringe and other benefits R	Manage-ment fee R	Total R
33. Directors' Interest (continued)						
2004						
Emoluments per director:						
Non-executive	**1,292,166**	**–**	**–**	**–**	**–**	**1,292,166**
NE Mtshotshisa	**666,666**	**–**	**–**	**–**	**–**	**666,666**
RP Menell	**108,000**	**–**	**–**	**–**	**–**	**108,000**
TA Sekano	**96,000**	**–**	**–**	**–**	**–**	**96,000**
TG Vilakazi	**108,000**	**–**	**–**	**–**	**–**	**108,000**
CL Valkin	**108,000**	**–**	**–**	**–**	**–**	**108,000**
MP Moyo +	**115,500**	**–**	**–**	**–**	**–**	**115,500**
Tan Sri Dato'Ir. Md. Radzi Mansor	**90,000**	**–**	**–**	**–**	**–**	**90,000**
Executive	**–**	**1,864,845**	**8,200,991**	**1,074,730**	**35,600,612**	**46,741,178**
SE Nxasana*	**–**	**1,864,845**	**8,200,991**	**1,074,730**	**–**	**11,140,566**
SM McKenzie ++	**–**	**–**	**–**	**–**	**11,224,756**	**11,224,756**
AJ Lewis ++	**–**	**–**	**–**	**–**	**5,517,295**	**5,517,295**
JB Gibson ++ (alternate)	**–**	**–**	**–**	**–**	**6,867,629**	**6,867,629**
B Manning ++ (alternate)	**–**	**–**	**–**	**–**	**6,241,497**	**6,241,497**
C Khai Tan +++	**–**	**–**	**–**	**–**	**5,749,435**	**5,749,435**
Total emoluments – paid by Telkom	**1,292,166**	**1,864,845**	**8,200,991**	**1,074,730**	**35,600,612**	**48,033,344**
2003						
Emoluments per director:						
Non-executive	1,106,689	–	–	–	–	1,106,689
E Molobi	66,667	–	–	–	–	66,667
NE Mtshotshisa	400,000	–	–	–	–	400,000
WYN Luhabe	42,040	–	–	–	–	42,040
WE Lucas-Bull**	27,446	–	–	–	–	27,446
RP Menell	75,040	–	–	–	–	75,040
CBC Smith	51,540	–	–	–	–	51,540
TA Sekano	84,540	–	–	–	–	84,540
TG Vilakazi	60,020	–	–	–	–	60,020
CL Valkin	84,540	–	–	–	–	84,540
MP Moyo +	93,040	–	–	–	–	93,040
D Mji	59,670	–	–	–	–	59,670
Tan Sri Dato'Ir. Md. Radzi Mansor	62,146	–	–	–	–	62,146
Executive	–	1,558,539	1,723,801	747,792	55,024,671	59,054,803
SE Nxasana*	–	1,558,539	1,723,801	747,792	–	4,030,132
SM McKenzie ++	–	–	–	–	10,757,714	10,757,714
TM Barry ++	–	–	–	–	4,591,545	4,591,545
AJ Lewis ++	–	–	–	–	15,349,259	15,349,259
JB Gibson ++	–	–	–	–	8,488,307	8,488,307
MD Kerckhoff ++	–	–	–	–	6,300,576	6,300,576
C Khai Tan +++	–	–	–	–	6,751,196	6,751,196
JM Rajaratnam +++	–	–	–	–	1,393,037	1,393,037
S Manickam +++	–	–	–	–	1,393,037	1,393,037
Total emoluments – paid by Telkom	1,106,689	1,558,539	1,723,801	747,792	55,024,671	60,161,492

* Included in remuneration is a pension contribution for SE Nxasana of R242,430 (2003: R179,301) paid to the Telkom Retirement Fund.
** Paid to FirstRand Retail.
+ Paid to Old Mutual Life Assurance Company.
++ Paid to SBC Communications for services rendered by directors included in consultancy services – managerial fees.
+++ Paid to Telekom Malaysia for services rendered by directors included in consultancy services – managerial fees.

34. Subsequent events

Dividends

The Telkom Board has declared a dividend of R613 million on June 3, 2004 which will decrease deferred taxation on STC credits by R77 million.

The Board aims to pay a progressively increasing dividend annually. The level of dividend will be based upon a number of factors, including the assessment of financial results, the Company's debt level, interest coverage and future expectations, including internal cash flows.

Other matters

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

US Dollar convenience translations

The following translations of certain Rand amounts into USD have been made at R6.32 per $1.00, the Rand noon buying rate on March 31, 2004. However, you should not assume that Rands could have been exchanged into USD at any particular rate or at all.

	Year ended March 31, 2003	2004	% change
Revenue	5,935	**6,455**	8.8
Operating profits	1,031	**1,438**	39.5
Net profit	258	**715**	177.5
EBITDA	2,059	**2,585**	25.5
EPS (cents)	46.3	**128.5**	177.5
Net debt	3,192	**2,114**	(33.8)
Total assets	8,422	**8,384**	(0.5)
Cash flow from operating activities	1,542	**2,197**	42.5
Cash flow used in investing activities	(907)	**(858)**	(5.4)
Cash flow used in financing activities	(479)	**(1,025)**	114.1
Exchange rates			
Period end			
US$1 = ZAR	7.90	**6.32**	20.0
EUR1= ZAR	8.61	**7.77**	9.8
Average rate for year			
US$1 = ZAR	9.74	**7.17**	26.4

Special note regarding forward-looking statements

All statements contained herein, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of the Telkom Group, that are not statements of historical fact constitute "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995, specifically Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results 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 under the caption "Risk Factors" contained in item 3 of Telkom's most recent annual report on Form 20-F filed with the U.S. Securities Exchange Commission (SEC) and our other filings with the SEC, available on Telkom's website at www.telkom.co.za/ir, including, but not limited to, increased competition in the South African fixed-line and mobile communications markets; developments in the regulatory environment; Telkom's ability to reduce expenditure, customer non-payments, theft and bad debt, the outcome of arbitration or litigation proceedings with Telcordia Technologies Incorporated and others; general economic, political, social and legal conditions in South Africa and in other countries where Vodacom invests; fluctuations in the value of the Rand and inflation rates, our ability to retain key personnel; and other matters not yet known to us or not currently considered material by us. You should not 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 hereof either to conform them to actual results or to changes in our expectations.

Shareholder analysis

at March 31, 2004

	Number of shareholders	%	Holdings	%
Range of shareholders				
1 – 100 shares	83,164	78.04	2,708,321	0.48
101 – 1 000 shares	21,813	20.47	5,268,292	0.95
1 001 – 10 000 shares	916	0.86	2,946,327	0.53
10 001 – 50 000 shares	330	0.31	8,445,339	1.52
50 001 – 100 000 shares	131	0.12	9,275,445	1.66
100 001 – 1 000 000 shares	177	0.17	49,360,126	8.86
1 000 001 and more shares	31	0.03	479,027,969	86.00
	106,562	100.00	557,031,819	100.00
Type of shareholding				
Banks	128	0.12	59,412,517	10.67
Close corporations	32	0.03	123,817	0.02
Endowment funds	28	0.03	688,942	0.13
Individuals	105,157	98.68	9,494,094	1.70
Insurance companies	36	0.03	3,717,126	0.67
Investment companies	16	0.02	21,351,680	3.83
Limited companies	3	0.00	6,320	0.00
Medical aid schemes	9	0.01	246,142	0.04
Mutual funds	222	0.21	24,748,490	4.44
Other corporations	47	0.04	374,886,898	67.30
Nominees and trusts	434	0.41	1,670,250	0.30
Pension funds	381	0.36	54,876,644	9.85
Private companies	66	0.06	201,532	0.04
Share trust	3	0.00	5,607,367	1.01
	106,562	100.00	557,031,819	100.00
Geographical holdings by owner				
South Africa	106,423	99.74	337,074,431	60.51
United Kingdom	42	0.08	22,260,118	4.00
United States	56	0.11	194,478,595	34.91
Europe	18	0.03	792,430	0.14
Other	23	0.04	2,426,245	0.44
	106,562	100.00	557,031,819	100.00
Beneficial shareholders of more than 2%				
The Government of the Republic of South Africa			213,403,966	38.31
Thintana Communications LLC			167,109,546	30.00
Public Investment Commissioners			21,265,709	3.82
State Street			17,989,505	3.23
Old Mutual			16,700,000	3.00
			436,468,726	78.36
Public and non-public shareholders				
Non-public shareholders			397,223,705	71.31
The Government of the Republic of South Africa			213,403,966	38.31
Thintana Communications LLC			167,109,546	30.00
Executive directors*			1,491	0.00
Non-executive directors*			16,700,000	3.00
Subsidiaries directors*			8,702	0.00
Public shareholders				
Institutional and retail investors			159,808,114	28.69
* Director holdings consist of direct and indirect holdings				
			557,031,819	100.00

The information above is based on beneficial shareholders, except where only registered shareholders' information was available.

Stock exchange performance

for the year ended March 31,

Telkom SA Limited has ordinary shares listed on the JSE Securities Exchange, South Africa (JSE) and American Depository Shares on the New York Stock Exchange (NYSE).

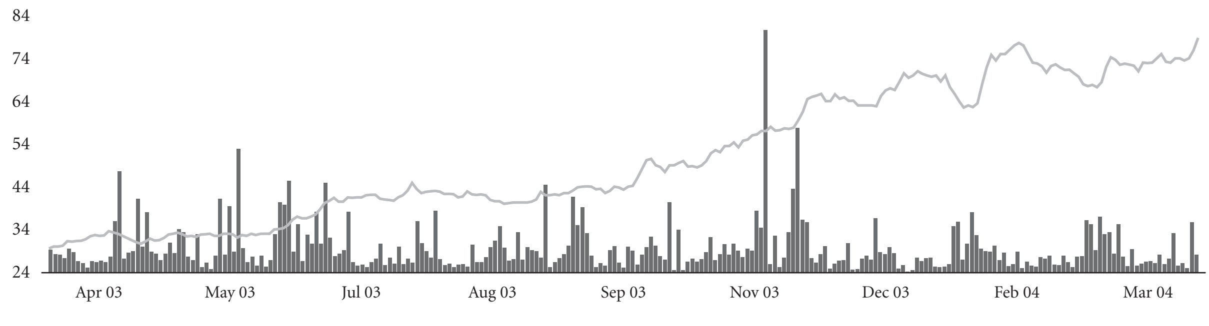
Exchange	Shares	Ticker	Currency
JSE	Ordinary shares	TKG	ZAR
NYSE	American Depositary Receipts	TKG	USD

1 ADR is equivalent to 4 ordinary shares.

	JSE (ZAR)		NYSE (USD)	
	2003	**2004**	2003	**2004**
Closing prices (cents per share)	2915	**7880**	1465	**4960**
Highest price (cents per share)	3075	**7880**	14.78	**4960**
Total number of shares traded (million)	85	**380**	–	**–**
Total value of shares traded (million)	2,424	**19,550**	–	**–**
Number of shares traded as % of issued shares	15	**68**	–	**–**
Volume weighted average price (cents)	2853	**5145**	–	**–**
Market capitalisation (million)	16,237	**43,894**	2,040	**6,907**

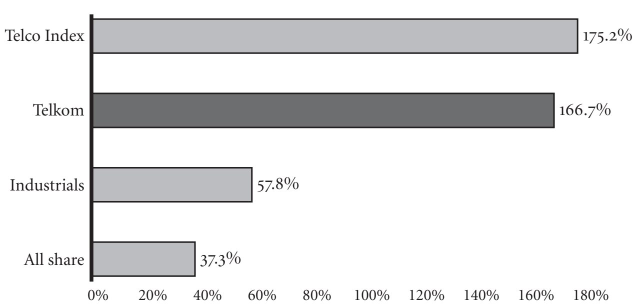
Source: Reuters

Telkom JSE share price and volume



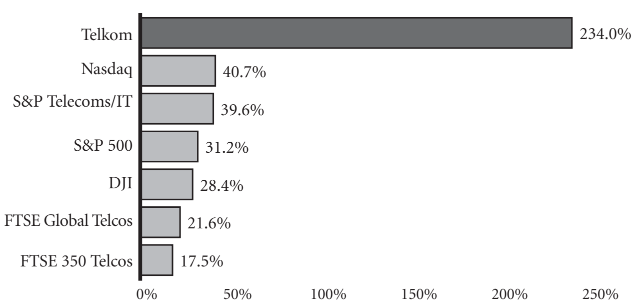
Sources: INET Bridge, Datastream, Bloomberg

JSE share price relative to SA indices



Source: Reuters

NYSE share price relative to major international stock market indices



Sources: Datastream, Bloomberg

Risk factors

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of the Telkom Group and Vodacom and the related notes thereto included elsewhere in this annual report before making an investment decision with respect to Telkom's ordinary shares or ADSs.

Risks Related to our Business

Increased competition in the South African telecommunications market may result in a reduction in overall average tariffs and market share in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

Telkom had the exclusive right to provide public switched telecommunications services, including international telephone services, in the Republic of South Africa until May 7, 2002, but for a number of years has competed with mobile operators and value added network operators in connection with the provision of other services. The Independent Communications Authority of South Africa, or ICASA, issued an international carrier of carriers licence and a multimedia licence to Sentech Limited, formerly known as Sentech (Proprietary) Limited and referred to herein as Sentech, in May 2002. In addition, on December 18, 2003, the Minister of Communications announced that she would grant an additional licence to provide public switched telecommunications services to a second national operator that will be 30% owned by two entities beneficially owned by the South African Government, 19% owned by a black economic empowerment consortium and 26% owned by two other consortiums, with the remaining 25% of the second national operator being held by the Government for sale to a strategic equity investor to be identified. The Minister of Communications has indicated that she expects ICASA to issue the second public switched telecommunications services licence in 2004. A process has also commenced to issue additional licences to small business operators to provide telecommunications services in areas with a teledensity of less than 5%. ICASA has submitted its recommendations to the Minister of Communications for the granting of licences to successful bidders in seven of the ten areas in which licences could have been issued. The Minister of Communications has granted licences to four successful bidders on June 3, 2004 and it is expected that these licences will be issued in 2004. Further competition may arise as a result of an assessment by the Minister of Communications of the feasibility of issuing additional licences from May 2005. As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty and maintaining its leadership in the South African communications market. As a result of increasing competition, we anticipate a reduction in overall average tariffs and market share in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

Competition from the three existing mobile communications network operators in South Africa has resulted in significant customer migration and call substitution from fixed-line to mobile services. If this customer migration and call substitution continues, our growth rates, operating revenue and net profit could decline.

Telkom competes with the three existing mobile communications network operators, Vodacom, Mobile Telephone Network Holdings (Proprietary) Limited, or MTN, and Cell C (Proprietary) Limited or Cell C, for customers. Telkom also competes with other service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. Telkom has experienced significant customer migration in recent years from fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service, with the increase in mobile penetration in South Africa. If this migration continues, our growth rates, operating revenue and net profit could decline.

The rapid growth in the mobile market in South Africa has resulted in a significant increase in the number of Vodacom and Telkom calls terminating on other mobile networks as opposed to our fixed-line network. Vodacom's and Telkom's margins and net profit could decline if this trend continues.

Vodacom and Telkom have experienced a significant change in the traffic mix as mobile customers increased relative to fixed-line customers. This resulted in an increasing percentage of calls from Vodacom's network and our fixed-line network terminating on other mobile networks rather than our fixed-line network. Vodacom's interconnection payments have increased and its margins have decreased because the cost of terminating calls on other mobile networks is higher than the cost of terminating calls on Telkom's fixed-line network. As a result, Vodacom's South African net interconnect revenue has been declining in recent years. Similarly, Telkom has incurred increased payments to other operators as a result of the growth in interconnection traffic for fixed-line calls terminating on other mobile networks. If mobile customers continue to increase and there is little or no growth in fixed-line customers, this trend could continue and Vodacom's and Telkom's margins and net profit could decline.

Increased competition in the mobile communications market in South Africa may result in a reduction of Vodacom's average tariffs and Vodacom's market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline.

There are currently three operators in the South African mobile communications market, Vodacom, MTN and Cell C. At March 31, 2004, Vodacom estimates that it held approximately 54%, MTN held approximately 35% and Cell C held approximately 11% of the South African mobile communications market, based on total estimated customers. Increased competition from Cell C in 2004 has resulted in an estimated 3% decline in market share for Vodacom. In addition, ICASA has indicated that it intends to licence global mobile personal communications services by satellite and to conduct a feasibility study on the licensing of a fourth mobile operator in 2004 or later. This increased competition, together with the further liberalisation of the South African telecommunications industry, may result in a reduction in Vodacom's overall average tariffs and further loss of market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline.

If we are not able to implement a reduction in our existing fixed-line employees and employee expenses or if significant labour unrest results from the implementation of our fixed-line employee reduction programme, our ability to compete may be harmed and our net profit could decline.

The number of our fixed-line employees of Telkom declined by approximately 24,453 positions from March 31, 1997 through

March 31, 2004. We intend to continue to reduce our fixed-line headcount over the next few years. Our ability to implement optimal employee reductions is limited by South African labor laws. In addition, legal requirements make such reductions costly. We also face pressure from labor unions in South Africa who oppose employee reductions and may encounter resistance from the Government of the Republic of South Africa if the reductions conflict with the Government's social objectives at the time. If we are unable to reduce the number of our fixed-line employees and employee expenses or if significant labor unrest results from implementation of our fixed-line employee reduction programme, our ability to compete may be harmed and our net profit could decline.

The value of Vodacom's investments outside of South Africa and Vodacom's revenue and net profit may decline as a result of political, economic, regulatory and legal developments in the countries where Vodacom has invested.

Vodacom currently has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. These countries have political, economic, regulatory and legal systems that are still in the process of transformation and are less developed than those in the Republic of South Africa. Political or economic upheaval or changes in laws and regulations or in their application may harm the operations of the companies in which Vodacom invests and impair the value of these investments. The regulatory environments in these countries often lack clarity in a number of areas and are subject to varying interpretations. These countries, particularly the Democratic Republic of the Congo, suffer from extreme poverty and are experiencing civil strife, political conflict and political mismanagement, all of which could cause the value of Vodacom's investments in these countries and Vodacom's revenue and net profit to decline.

Most of the fixed-line operators in these countries are still state controlled. As a result, the mobile communications network operators in which Vodacom has invested may encounter difficulties in negotiating commercially acceptable interconnection agreements and collecting amounts due under interconnection agreements. In particular, Vodacom Tanzania has been unable to collect approximately $800,000 in outstanding interconnection payments from the Tanzania Telecommunications Company Limited, the partially government owned fixed-line operator in Tanzania, and has been forced to refer the matter to formal arbitration, and there have been disagreements regarding the validity of the interconnect agreements in the Democratic Republic of the Congo. The amounts in question have been written off even though Vodacom Tanzania continues its attempt to collect these debts. In addition, a number of jurisdictions in which Vodacom invests have imposed price controls, particularly for interconnection, which could reduce Vodacom's net profit and cause the value of Vodacom's investments in these other African countries to decline. There are also foreign exchange control restrictions in South Africa, which may restrict Vodacom's ability to fund its investments in these countries, and there are foreign exchange controls in a majority of these countries, which may restrict Vodacom's ability to extract value from these investments.

The number of mobile operators and mobile licences available for acquisition in other African countries is limited. Moreover, Vodacom's acquisition of mobile operators and licences in other African countries may be unsuccessful, which could have a material adverse effect on Vodacom's future growth.

A substantial part of Vodacom's future growth is expected to be from acquisitions of mobile operators or licences in other African countries. There are a limited number of mobile operators and licences in other African countries available for acquisition and there is substantial competition for the types of mobile operators and licences Vodacom targets. In addition, there are significant risks associated with Vodacom's ability to acquire mobile operators in other African countries, including those discussed above under "Risk Factors-Risks Related to Our Business-The value of Vodacom's investments outside of South Africa and Vodacom's revenue and net profit may decline as a result of political, economic, regulatory and legal developments in the countries where Vodacom has invested." For instance, Vodacom spent considerable time entering into a five year management agreement with VEE Networks Limited effective April 1, 2004, pursuant to which Vodacom would have managed VEE Networks' cellular network operations in Nigeria with the intention of acquiring an equity stake in the business. On May 31, 2004, however, Vodacom announced that it had elected to terminate the management contract and abandon its plan to make an equity investment in the business of VEE networks in Nigeria. To the extent securities analysts and investors anticipate that Vodacom will continue to grow through acquisitions and Vodacom does not do so, our stock price could decline. Moreover, Vodacom could expend a substantial amount of time and capital pursuing acquisitions it does not consummate, such as happened in Nigeria, which could adversely affect its business, financial condition, results of operations and growth.

The expansion of Vodacom's other African operations may place a significant strain on its management, financial and other resources. Vodacom's ability to manage future growth in its other African operations will depend upon its ability to monitor operations, maintain effective quality controls and significantly expand its internal management, technical and accounting systems, all of which will result in higher operating expenses. The integration of acquired mobile operators or licences in other African countries may involve, among other things, integration of switching, transmission, technical, sales, marketing, billing, accounting, quality control, management, personnel, payroll, regulatory compliance and other systems and operating hardware and software, some of which may be incompatible with Vodacom's existing systems and therefore may need to be replaced. In addition, mobile operators generally experience higher customer and employee turnover rates during and after an acquisition or launch of service. We cannot assure you that Vodacom will be able to integrate successfully the mobile operators or mobile licences it may acquire in other African countries.

We do not have the right to appoint a majority of Vodacom's directors or members of its directing committee and the Vodacom joint venture agreement contains approval rights that may limit our flexibility and ability to implement our preferred strategies.

Although we are a 50% shareholder in Vodacom, our flexibility and ability to implement our preferred strategies may be limited by the fact that we do not have the right to appoint a majority of Vodacom's directors or members of its directing committee. In addition, under our memorandum and articles of association, Thintana Communications and the Government are entitled to nominate the directors we appoint to the Vodacom board. The Vodacom joint venture agreement, which governs the relationship between Telkom and the other shareholders of Vodacom, requires each of Vodacom's shareholders who own 10% or more of

Vodacom's shares to approve certain material transactions. As a result of these factors, we may not be able to impose strategies on Vodacom that we believe to be beneficial to us without the approval of Vodacom's other shareholders.

If Vodacom does not continue to pay dividends or make distributions to Telkom, Telkom may not be able to fund its operating expenditures and service its debt and other financial obligations. In addition, Telkom may not have sufficient funds to pay dividends and could be required to lower or defer capital expenditures, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

Telkom receives dividends and other distributions from Vodacom which Telkom uses to fund its capital and operating expenditures and service its debt and other financial obligations. Vodacom is legally distinct from Telkom and has no obligation to pay dividends or make distributions to Telkom. Vodacom's ability to pay dividends and make other distributions to Telkom may be restricted by, among other things, its operations and the availability of funds and the terms of credit and debt arrangements entered into by it, as well as statutory and other legal restrictions. In addition, Vodacom's ability to make distributions to Telkom and its other shareholders requires the approval of Vodacom's shareholders who own 10% or more of Vodacom's shares. To the extent that Vodacom is unable to, or otherwise does not, pay dividends or make other distributions to Telkom in the future, Telkom may not be able to fund its operating expenditures and service its debt and other financial obligations. In addition, Telkom may not have sufficient funds to pay dividends and could be required to lower or defer capital expenditures, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

Risks Related to Telkom's Ownership by the Government of South Africa and Thintana Communications

Telkom's major shareholders exercise control over our strategic direction and major corporate actions.

The Government of the Republic of South Africa and Thintana Communications, the investment vehicle of our strategic equity investors, together hold a majority of Telkom's ordinary shares. Through the ownership and voting arrangements provided for in a shareholders' agreement and Telkom's Memorandum and Articles of Association, the Government and Thintana Communications are able to exert considerable influence over Telkom's corporate governance, strategic direction and major corporate actions and to appoint directors of Telkom's subsidiaries and the Vodacom joint venture.

In the shareholders' agreement, the Government and Thintana Communications have, among other things, agreed to vote together on specific matters. In addition, Telkom's Memorandum and Articles of Association require Telkom to obtain written consent from the Government before taking actions that would limit Telkom's ability to provide public switched telecommunication services. Telkom's Memorandum and Articles of Association also require the approval of directors appointed by the Government and Thintana Communications in order for Telkom or any of its subsidiaries, including Vodacom, to enter into major corporate actions and transactions, including amendments to Telkom's management structure and the powers of Telkom's operating committee, the approval of Telkom's dividend policy and payment of dividends, increases in Telkom's indebtedness beyond certain limits and changes of control. As a result, without the approval and participation of the Government and Thintana Communications, Telkom is not able to consummate transactions involving an actual or potential change of control, including transactions in which you might otherwise receive a premium for your ordinary shares or ADSs over market prices. Because the Government and Thintana Communications exercise control over Telkom, holders of ordinary shares and ADSs lack meaningful power to approve decisions of Telkom's Board of Directors or to influence our strategic direction and major corporate actions.

The Government of the Republic of South Africa may use its positions as shareholder of Telkom and, policymaker for and customer of, the telecommunications industry in a manner that may be favourable to our competitors and unfavourable to us.

The Government of the Republic of South Africa currently owns 38.3% of Telkom's issued and outstanding ordinary shares. The Government also holds significant equity stakes in other industry participants, including Sentech, and will have an indirect 30% equity interest in the second national operator and will retain an additional 25% equity interest in the second national operator to be sold to a strategic equity investor in the future. To further its policy of liberalisation of the telecommunications industry, the Government may adopt and implement policies and exercise its right to approve regulations that benefit our competitors but are not beneficial to us. In addition, to further other political or social objectives, the Government may act in a manner that may be detrimental to our business but advantageous to our competitors.

The Government of the Republic of South Africa is also one of our customers. The Government, excluding Government owned parastatal companies, accounted for approximately 9% of our fixed-line operating revenue, excluding directories and other operating revenue, in the year ended March 31, 2004. The Government could transfer some or all of its business to the second national operator or other operators when they commence operations. Legislation has been enacted to centralise all procurement of telecommunications and information technology services by the Government, through one agency. If the Government transfers some or all of its business to other operators, our operating revenue and net profit would decline.

Risks Related to Regulatory and Legal Matters

The regulatory environment for the telecommunications industry in South Africa is evolving and final regulations addressing a number of significant matters have not yet been issued. The interpretation of existing regulations, or the adoption of new policies or regulations that are unfavourable to us, could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

The provision of telecommunications services in the Republic of South Africa is subject to extensive regulation. The regulatory environment is developing, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalised. In addition, the regulatory process entails a public comment process and a convergence colloquium, which, in light of the politicised issue of privatisation of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified, including:

- the terms and conditions of the second national operator's licence;
- whether and the extent to which our licences may be amended as a result of the licensing of the second national operator;
- whether any additional obligations may be imposed on us at that time or thereafter;
- the extent to which our fixed-line business will be required to make its facilities or access lines available to the second national operator to provide services, other than public switched telecommunications services, during the first two years of its licence and beyond; and
- the extent to which our fixed-line business may be required to unbundle its local loop after two years.

In addition, ICASA was only established in 2000. Upon its establishment, ICASA inherited a legacy of regulatory problems from its predecessors. It has been reported that ICASA may currently lack adequate resources to effectively fulfil its regulatory and licensing functions and to deal with regulatory challenges that continue to change given the rapidly evolving telecommunications environment. This combination of factors creates further uncertainties in the regulatory arena and the ability of ICASA to effectively fulfill its functions. We cannot predict the outcome or timing of any amendments or modifications to applicable regulations or the interpretation thereof, the release of new regulations or their impact on us. We have in the past had conflicts with ICASA and its predecessor, including litigation against them with regard to price cap regulations and interconnection and facilities leasing guidelines. Changes in the regulation of telecommunications services in South Africa, the imposition of unfavourable terms in our licences or the loss or unfavourable amendment of any licence could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

In addition, new laws and regulations that may require our business customers to make use of suppliers complying with black economic empowerment requirements may affect us. If such new laws and regulations are promulgated, and if our shareholder base does not qualify under the ownership requirements of these black economic empowerment initiatives or restrictions, some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfill such ownership requirements.

Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom's revenue and net profit could decline if wholesale price controls are imposed on it.

Our public switched telecommunications services licence imposes a price cap formula on our overall tariffs for a basket of specified services and any individual product or service within the basket of specified services that we previously had the exclusive right to provide. The overall tariffs for all services in the basket may not be increased by more than 1.5% below inflation in South Africa, based on the consumer price index and measured using revenue for the services in the basket at constant volumes for the prior year. In addition, from January 1, 2003, the price of any individual product or service within the basket may not be increased by more than 5% above inflation in South Africa in any year. Our tariffs for these services are filed with ICASA for approval. Revenue from these services may not be used to subsidise competitive products and services. These limitations on our customer tariffs limit our pricing flexibility and could reduce our net profit. ICASA has indicated its intention to conduct a review of the price control regime before the end of 2004 that could have a further negative impact on our net profit. In addition, Vodacom's revenue and net profit could decline if wholesale price controls are imposed on it.

If the Competition Commission of the Republic of South Africa were to conclude that Telkom had committed a prohibited practice, as set out in the Competitions Act of 1998, Telkom could incur a penalty, its business and financial condition could be materially adversely effected and its revenue and net profit could decline.

The South African Value Added Network Services Association, an association of value added network service providers, or VANS providers, filed complaints against Telkom at the Competition Commission of the Republic of South Africa regarding alleged anti-competitive practices on the part of Telkom. The Competition Commission found, among other things, that several aspects of Telkom's conduct contravened the Competition Act, 89 of 1998, and referred certain of the complaints to the Competition Tribunal for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidised competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers. Telkom has brought an application in the South African High Court challenging the Competition Tribunal's jurisdiction to adjudicate this matter. These matters and the amount of Telkom's liability are not expected to be finalised within the next 2 years. If these complaints are upheld, however, Telkom could be required to cease these practices and fined an amount of up to 10% of Telkom's South African turnover or be ordered to divest itself of the relevant business. Telkom is currently unable to predict the amount that it may eventually be required to pay. If Telkom is required to cease these practices, divest itself of the relevant business or pay significant fines, Telkom's business and financial condition could be materially adversely effected and its revenue and net profit could decline.

If Telcordia Technologies Incorporated, a New Jersey corporation, were able to recover substantial damages in its arbitration proceedings against Telkom, Telkom would be required to fund such payments from cash flows or drawings on its existing credit facilities, which could cause Telkom's indebtedness to increase and its net profit to decline.

Telcordia instituted arbitration proceedings against Telkom in March 2001 seeking to recover approximately $130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year. The arbitration proceedings relate to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end-to-end customer assurance and activation system by Telcordia. In September 2002, a partial award was issued by the arbitrator in favour of Telcordia. Telkom subsequently filed an application in the South African High Court to review and set aside the partial award. On November 27, 2003, the

Risk factors

South African High Court set aside the partial award and issued a cost order in favour of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial award, which petition was dismissed, along with a subsequent appeal. As a result, the Telcordia dispute has been referred back to arbitration. The dispute between Telkom and Telcordia and the amount of Telkom's possible liability are not expected to be finalised until late 2004 or early 2005. Telkom is currently unable to predict the amount that it may eventually be required to pay Telcordia, if any, and has reversed all of its provisions for estimated liabilities, including interest and legal fees. If Telcordia recovers substantial damages from Telkom, Telkom would be required to fund such payments from cash flows or drawings on its existing credit facilities, which could cause its indebtedness to increase and its net profit to decline.

If we are unable to negotiate favourable terms, rates and conditions for the provision of interconnection services and facilities leasing services, our business operations could be disrupted and our net profit could decline.

Telkom is required to provide interconnection services to the mobile operators, the second national operator and all other entities that lawfully provide telecommunications services in South Africa and to lease or otherwise make our telecommunications facilities available to any entity lawfully providing or utilising telecommunications services in South Africa. Telkom will also be required to allow the second national operator to use all of its telecommunications facilities for the provision of public switched telecommunications services on a resale basis for the first two years of its licence. Telkom may also be required to lease or otherwise make its telecommunications facilities available to the second national operator for the provision of services, other than public switched telecommunications services, during the first two years of its licence and beyond. The terms and conditions for the provision of these services and facilities are, or will be, set out in interconnection agreements and facilities lease agreements negotiated and agreed to by Telkom with these other entities.

ICASA is entitled to issue, and has issued, regulations relating to interconnection and facilities leasing. Telkom has been declared a major operator, and consequently will have to provide essential services and facilities at cost based prices to public operators, such as MTN, Vodacom, Cell C, Sentech, the small business operators and eventually the second national operator. None of these operators have been declared to be major operators. To the extent that we are unable to reach agreement with these entities for the provision of these services, including the applicable tariffs, or to the extent that the terms and conditions of our agreements are found to be inconsistent with the relevant legislation or regulations, such terms and conditions may be determined and imposed on us by ICASA. If we are unable to negotiate favourable terms and conditions for the provision of the services and facilities covered by the guidelines or ICASA otherwise imposes terms and conditions that are unfavourable to us, our business operations could be disrupted and our net profit could decline.

If we are unable to recover the substantial capital and operational costs associated with the implementation of carrier pre-selection, number portability and monitoring and interception or are unable to implement these requirements in a timely manner, our business operations could be disrupted and our net profit could decline.

We were required to implement carrier pre-selection in our fixed-line business, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls, by December 31, 2003. We are required to implement number portability, which will enable customers to retain their fixed-line and mobile telephone numbers if they switch fixed-line operators or mobile operators, by 2005. In addition, commencing in July 2003, all licencees, including Telkom and Vodacom have been required to install equipment and put in place procedures that will allow certain agencies in the Government of the Republic of South Africa to intercept and monitor communications over our respective networks and retain records and copies of such communications. We will incur substantial set-up and maintenance time and costs in connection with the implementation of these requirements, which could disrupt our business operations. The extent of recoverability of these costs have not yet been determined and finalised by ICASA. Telkom has conditioned its exchanges to handle call-by-call carrier pre-selection by December 2003. We will not be able to fully implement carrier pre-selection until the second national operator is licenced and the second national operator's interconnection systems and the inter operator process and systems to support carrier pre-selection become available, and the necessary regulations are issued. The procedures and timetable for the full implementation of the interception and monitoring legislation requirements have not been finalised. However, Telkom and Vodacom have not been able to comply with the time frame contemplated by the current drafts of this legislation. To the extent that we have not complied with these requirements or are unable to substantially recover these costs of compliance, our business operations could be disrupted and our net profit could decline.

If Vodacom does not obtain a licence to use adequate amounts of 1800MHz radio frequency spectrum or a licence for radio frequency spectrum for the provision of third generation services on commercially reasonable terms, Vodacom's future growth rates, revenue and net profit could decline.

Vodacom has a statutory right to obtain a licence to use 1800MHz radio frequency spectrum and radio frequency spectrum for the provision of third generation services pursuant to amendments to the Telecommunications Act, 103 of 1996. Although the fees that will be required to obtain the 1800MHz radio frequency spectrum have been announced by The Minister of Communications, the licence has not yet been issued. In addition, the amount of spectrum that will be licenced for the 1800MHz radio frequency and the amount of spectrum and the fees that will be required to obtain the radio frequency spectrum for the provision of third generation services have not yet been determined. In the event Vodacom is not able to obtain sufficient additional capacity on the 1800MHz radio frequency spectrum or radio frequency spectrum for the adequate provision of third generation services, or if the terms of such licences are unfavourable, Vodacom's growth rates, revenue and net profit could decline.

A full list of Telkom's risk factors is available on Telkom's Investor Relations website at www.telkom.co.za/ir

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Annual General Meeting
Date to be determined.

Financial reporting
Telkom SA Limited reports annual and interim results. Interim results will be published in November 2004.

Investor relations website
www.telkom.co.za/ir

Available on the investor relations website: financial reports, SEC filings, share price, management presentations, conference call details, media releases, sustainability information and company background information.

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