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Telkom group structure and revenue contribution as at 31 March 2010

TELKOM SOUTH AFRICA – 100%
The fixed-line segment is our largest business. Telkom South Africa provides fixed-line subscription and connection, traffic, interconnection, data and internet services.

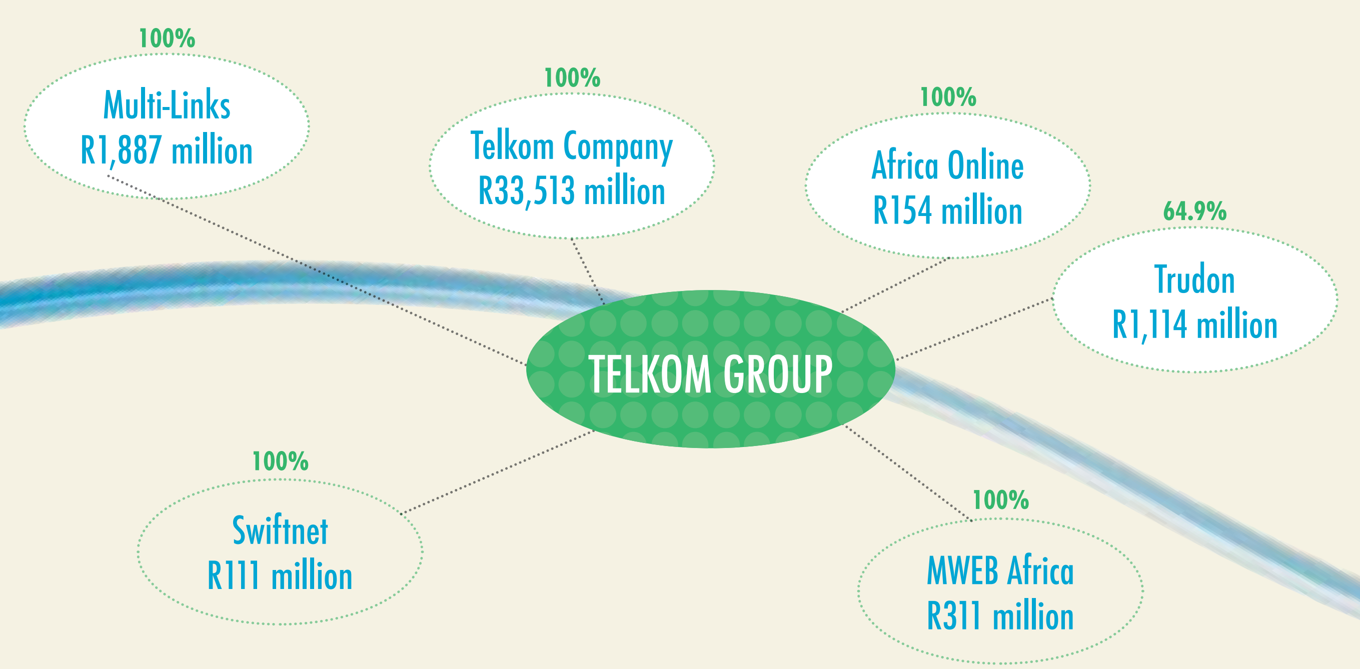
MULTI-LINKS – 100%
Multi-Links is a private telecommunications operator in Nigeria, providing local, long-distance and international voice and data service. It operates on CDMA technology.

TRUDON – 64.9%
Trudon (Pty) Ltd provides Yellow and White page directory services, an electronic directory service, 10118 'The Talking Yellow Pages', and an online web directory service.

AFRICA ONLINE – 100%
Africa Online is an internet service provider (ISP) in Africa. As one of the largest Pan-African ISPs in sub-Saharan Africa, Africa Online offers a wide range of services to suit a variety of customer needs. With operations in Cote d'Ivoire, Ghana, Kenya, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe, Africa Online is positioned to provide individuals and organisations with scalable solutions based on each client's specific needs.

MWEB AFRICA – 100%
Telkom acquired a 100% interest in MWEB Africa Limited in April 2009. MWEB Africa is a group of companies offering internet services and its own VSAT access services in sub-Saharan Africa (excluding South Africa). The group is headquartered in Mauritius with operations in Nigeria, Kenya, Tanzania, Uganda, Namibia and Zimbabwe and an agency arrangement in Botswana.

SWIFTNET – 100%
Swiftnet (Pty) Ltd trades under the name FastNet Wireless Services. FastNet provides synchronous wireless access on Telkom's X.25 network, Saponet-P, to its customer base. Services include retail credit card and check point of sale terminal verification, telemetry, security and fleet management.



The revenue contributions are before inter-company eliminations and have been normalised.

Telkom shareholding as at 31 March 2010

1

GOVERNMENT

The government of the Republic of South Africa is the largest shareholder in Telkom, holding 39.8% of the Company's issued share capital. The government is the Class A shareholder.

2

BLACK GINGER 33 (PTY) LTD

Black Ginger 33 (Pty) Ltd is a wholly owned (100%) subsidiary of the Public Investment Corporation holding 8.9% of the Group's issued share capital. Black Ginger 33 is the Class B shareholder.

3

PUBLIC INVESTMENT CORPORATION

The Public Investment Corporation (PIC) is an investment management company wholly owned by the government. It invests funds on behalf of public sector entities. The PIC holds 4.0% of the Group's issued share capital directly.

4

TELKOM TREASURY STOCK

Rossal No 65 (Pty) Ltd holds 7,442,974 shares, 1.4% of the Group's issued share capital which were purchased for the Telkom Conditional Share Plan. Acajou Investments (Pty) Ltd holds 8,143,556 shares, 1.6% of the Group's issued share capital for the Telkom Conditional Share Plan.

5

FREE FLOAT

The free float of 44.3% makes up the remainder of the Group's issued share capital. Included in the free float are 12,554,616 shares held by 85,540 retail shareholders representing 2.4% of the Group's issued share capital.

Group strategy – the evolution of Telkom

DEFEND PROFITABLE REVENUE

- Convert traditional voice revenue to annuity revenue.
- Build customer retention.
- Build customer loyalty.

- Packaging call minutes with access line rental in attractive subscription-based value propositions.
- Improve competitiveness through tariff rebalancing.
- Build customer retention initiatives that entice customers to stay with Telkom.
- Build customer loyalty and satisfaction by providing superior value propositions.

GROW PROFITABLE REVENUE THROUGH BROADBAND AND CONVERGED SERVICES

- Increase broadband penetration.
- Provide end-to-end solutions to the enterprise market.
- Expand domestic data centre operations.
- Facilitate innovative voice and data solutions.
- Increase the use of highly skilled partners.

- Extend our converged broadband footprint and pursue partnerships with content providers to enhance our offerings.
- Increase bandwidth capacity to offer higher bandwidth applications .
- Provide converged information, communications and technology solutions to the enterprise market.
- Offer differentiated data centre services in the areas of hosting, desktop and IT systems outsourcing services.
- Develop improved value propositions through customer understanding enabled by the customer centricity programme.
- Utilise the NGN to facilitate innovative solutions.
- Enhance our ability to successfully partner with other highly skilled providers where synergistic opportunities exist.

GROW PROFITABLE REVENUE THROUGH FIXED-WIRELESS/MOBILE VOICE AND DATA SERVICES

- Provide mobile service nationally.
- Providing an integrated fixed and mobile offering.
- Superior speeds and quality through fixed-line network and latest mobile technology.
- Develop combined packages as required by customers.

- Provide mobile services nationally by building a 2G/2.5G and 3G mobile network.
- Roaming on MTN's network where we elect not to build our own network.
- Adapting and re-aligning our fixed-line business to incorporate key value adding services.
- Selectively building a fixed-wireless network to provide:
  - More cost effective and timely last mile solutions in rural, high theft and high maintenance cost areas.
  - Wireless services to complement fixed broadband connections.

GROW PROFITABLE REVENUE INTERNATIONALLY

- Increasing international revenue from acquired African subsidiaries and international services.

Become a leading Pan-African integrated ICT service provider offering:

- International communications and internet connectivity.
- Data centre and managed data services.
- Mobile voice and broadband solutions.
- Consulting and inorganic ICT growth opportunities.

Leverage synergies across the Group to grow revenue from subsidiaries – organically and through acquisitions.

Extract value from our existing international assets.

Grow from an African ISP to a fully fledged ICT player.

MULTI-LINKS Telkom
Touching Lives

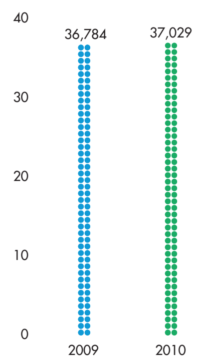
iWayAfrica
A member of the Telkom Group

Financial review summary

Normalised free cash flow

Excluding the effects of the R40.5 billion profit on the sale of our 15% stake in Vodacom, and unbundling of the remaining 35% stake to Telkom shareholders, taxation paid relating to the Vodacom transaction and the special dividend, the Group normalised free cash flow improved to R5.5 billion.

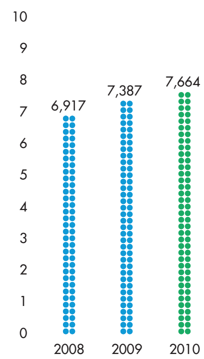
Normalised operating revenue (Rm)



R37,029m (R36,784m)

Marginal increase due to the inclusion of 11 months revenue from MWEB Africa and higher operating revenue of Trudon. Lower traffic revenue, partially offset by strong growth in data revenue, higher interconnection revenue and calling plans.

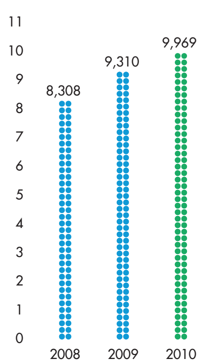
Annuity revenue (Rm)



R7,664m (R7,387m)

Telkom continues to be successful in converting customers to subscription based packages.

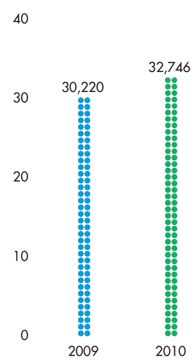
Data revenue (Rm)



R9,969m (R9,310m)

Increased despite significant price reductions. We continue to make every effort to increase the bandwidth available to our customers. Speeds of up to 10 mbps have been installed in selected exchanges.

Normalised operating expenditure (Rm)



R32,746m (R30,220m)

A lower level of increase in the second half of the financial year is evidence of our efforts to reduce costs. Increases also as a result of our restructuring and the start up of our mobile business.

Quality, value for money products delivering strong growth

100% ADSL coverage

100% of our exchanges are ADSL enabled. They consist of 4,000 digital subscriber line access multiplexers, serving approximately 647,462 customers, which represents a growth of 18.1%.

21.1% increase in calling plan subscribers

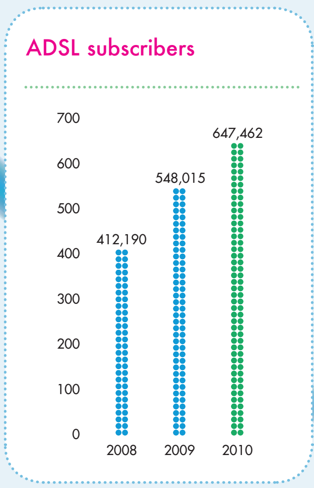
The Telkom Closer packages have performed well, increasing by 20.6% to 694,348 plans. Supreme call packages, targeted at the business segment, have increased by 41.2% to 20,873 packages.

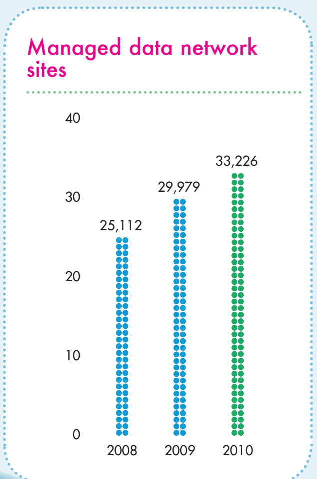
25.4% increase in Do Broadband packages

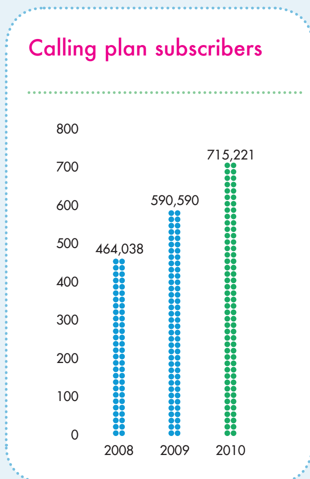
Do Broadband subscribers increased 25.4% to 236,512. Our current Broadband line penetration rate is 19%.

16.8% increase in VPN sites to 22,247

Telkom's corporate solutions gain further market traction.







Equity markets

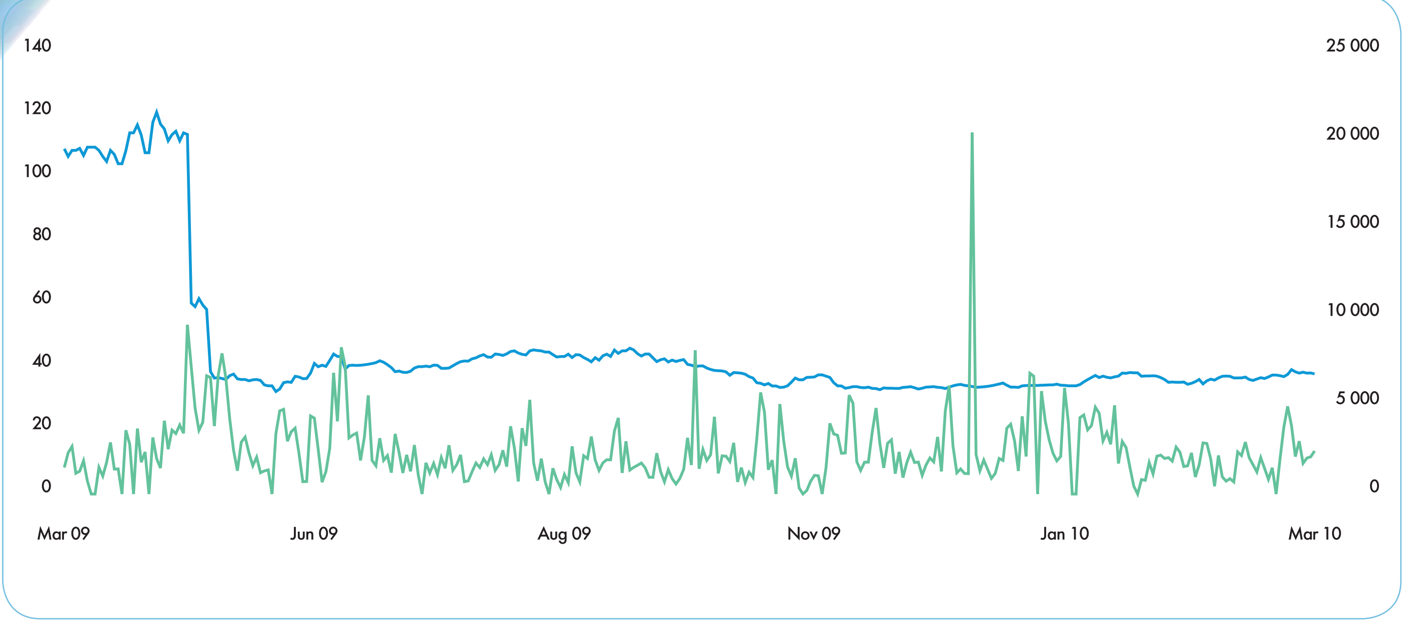
During the financial year ended 31 March 2010 the global economy was afflicted by a marked slowdown in growth with both corporates and consumers hesitant to invest or spend. We experienced further line losses, increased bad debts, a decrease in traditional traffic revenue and a slowdown in data growth. The Group, however, continues to focus on returning capital to shareholders. Highlights include:

- The sale of our 15% share in Vodacom to Vodafone Plc for the excellent price of R20.6 billion. In addition, the remaining 35% share of Vodacom was unbundled directly to shareholders and Vodacom was listed on 18 May 2009 and closed on that day at a price of R58.80. The Telkom share price fell from R113.00 on 15 May 2009 to R60.00 on 18 May 2009 reflecting the unbundling of Vodacom.
- On 25 May 2009 Telkom paid a special dividend of R19.00 per share to its shareholders.
- On 20 July 2009 Telkom paid an ordinary dividend of 115 cents per share and a special dividend of 260 cents per share in respect of the 2009 financial results.
- In November 2009, the board approved the Mobile business plan following extensive market research.
- In November 2009, Mr Jeff Molobela was appointed Chairman of Telkom.
- In November 2009, Cybernest – our data centre operation – was launched.
- The remainder of the financial year up to 31 March 2010 was characterised by the building of our mobile network, restructuring of Telkom SA into distinct business units, the culture revitalisation programme and preparing for the FIFA World Cup™.
- Telkom declared an ordinary dividend of 125 cents per share and a special dividend of 175 cents per share in respect of the 2010 financial year. The dividends were paid to shareholders on 19 July 2010.

JSE Limited (ZAR per ordinary share) year ended March 2010

	JSE Limited ZAR per ordinary share year ended 31 March 2010 2009	 **2010**
Closing price	105.49	**34.15**
Highest price	107.37	**114.00**
Market capitalisation (millions)	54,937	**17,785**

The change in the share price and market capitalisation is reflective of the separate listing of Vodacom.



The regulatory and competitive landscape

Telkom is an integrated communications service provider offering packaged voice, data, broadband and internet services to business and residential customers.

Competition in the South African fixed-line communications market is intense and increasing as a result of the Electronic Communications Act and determinations issued by the Minister of Communications.

The new licensing framework included in the Act has resulted in the market becoming more horizontally layered with a large number of separate licences being issued for electronic communications services, broadcasting services and the radio frequency spectrum. This is expected to substantially increase competition in our fixed-line business.

In the areas where we face competition and expect to compete for public switched telecommunications services, we compete primarily on the basis of customer service, quality, dependability and price. Additionally we constantly look at launching new products, services and tariff structures to enable us to maintain and grow revenue.

Fixed-line voice competition

In September 2004, the Minister of Communications granted an additional licence to Neotel for it to provide switched telecommunications services. At the beginning of 2007 calendar year, Neotel started providing services to large corporations and other licensees. On 25 April 2008, the company announced that the first of its consumer products were available to limited parts of Johannesburg and Pretoria and currently, Neotel offers its services to corporations and retail customers.

In 2007, following an amendment to the Electronic Communications Act to enable State investment and licensing in the sector, the government created an infrastructure company, Broadband Infraco (Pty) Ltd, to provide

FOCUS ON NEW AGE TECHNOLOGY

WE HAVE CONTINUALLY DECREASED PRICES TO OFFER CUSTOMERS INCREASED VALUE

The regulatory and competitive landscape (continued)

inter-city bandwidth at cost-based prices to Neotel and, later, to the rest of the industry. This added further competition to our communications network. Additionally, Broadband Infraco will also be involved in some of the under-sea cable projects.

Licences

On 29 October 2008, the Minister of Communications published for public comment a draft policy direction which would direct ICASA to grant Broadband Infraco individual Electronic Communications Services (ECS) and Electronic Communications Network Services (ECNS) licences.

ICASA has granted an ECNS licence, but not an ECS licence, to Broadband Infraco and, as a result, the company will compete in the wholesale markets but not the retail markets.

In 2005, the process to issue additional licences to small business operators for the purpose of providing telecommunications services in underserviced areas with a teledensity of less than 5% began. To date, the Minister of Communications has identified 27 underserviced areas and ICASA has issued licences to seven successful bidders with the Minister issuing invitations to apply for licences in an additional 14 areas.

All existing licences, including ours, have been converted into ECS and ECNS licences, and all future licences for this category will be issued as ECS and ECNS licences. These licences provide the authorisation to construct, maintain and operate an electronic communications network and provide ECNS and ECS. All the obligations contained in our public switched telecommunications service licence, including licence fees to be paid, minimum services to be provided to customers and other service obligations, will be contained in the regulations, some of which have been promulgated and some which are in the process of being promulgated.

Our licence fee under the public switched communications service licence was 0.1% of our annual revenue generated from the provision of the licensed public switched telecommunications services and the provision was retained following the conversion to ECS and ECNS licences. However, in terms of regulations published on 1 April 2009, our annual licence fees for ECS and ECNS were set at 1.5% of gross profit from licensed activities, defined as the total revenue obtained from the provision of licensed services, less total costs directly incurred in the provision of such services. As a result, there may be a material increase in Telkom's annual licence fee. We have applied to the High Court to have the regulation set aside but, unless and until the court grants our application, we remain liable to pay the higher fee. We have provided for this possibility.

On 25 March 2009, the telecommunications industry put forward proposals to ICASA regarding a Service Charter regulation which stipulated standard service levels. The standards stipulated in the regulation are extremely demanding and the communications industry has made representation to ICASA. On 24 July 2009, ICASA repealed the previous Service Charter regulation and published a new regulation that implements many of the industry's recommendations.

Other licences

In August 1995, our subsidiary, Swiftnet, was granted a telecommunications licence and a radio frequency spectrum for the provision of :

- The construction, maintenance and operation of a national wireless data network and the provision of wireless data telecommunications services; and
- Interconnection with Telkom's network.

In terms of the licence agreement, Swiftnet was required to have at least a 30% black economic empowerment (BEE) shareholding. In spite of the fact that we entered into an agreement in 2007 to sell 30% of Swiftnet to the Radio Surveillance Consortium, a group of empowerment investors, an agreement that received Competition Commission approval, ICASA did not approve the transaction and, as a result, Swiftnet is in breach of its licence.

Swiftnet received new ESC and ECNS licences from ICASA on 16 January 2009. These stipulated that the company still needed to secure a 30% BEE shareholding. However, ICASA has said that in the 2010 calendar year it will be reviewing the equity shareholdings of all licensees, after which it is anticipated that all licensees will be given sufficient time to meet their equity shareholding requirements.

On 19 February 2010, our Board rescinded the previous decision to dispose of Swiftnet and we are now seeking potential partners who will comply with Swiftnet's BEE requirements subject, to ICASA's finalisation of the proposed regulation on equity shareholding.

Carrier pre-selection

The now repealed Telecommunications Act mandated that fixed-line operators were required to implement carrier pre-selection to enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls.

These provisions were retained in the Electronic Communications Act and on 24 June 2005, regulations were published for the implementation of carrier pre-selection in two phases – the implementation of call-by-call pre-selection and fully automatic pre-selection, to be implemented and provided within two months and 10 months respectively of them being requested by another operator. We had already conditioned our exchanges to handle call-by-call carrier pre-selection by 31 December 2003. We have met with Neotel to discuss its request for implementing carrier pre-selection.

Until Neotel's interconnection systems and its inter-operator process and systems to support carrier pre-selection are available, we cannot fully implement carrier pre-selection and, as a result, we do not believe we can meet the 10 months deadline for automatic carrier pre-selection.

Number portability

The Telecommunications Act mandated that number portability to enable customers to retain their fixed-line and mobile telephone numbers if they switch between fixed-line operators or between mobile operators be introduced. These provisions were retained in the Electronic Communications Act. A framework number portability regulation was published at the end of 2004. This generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. We are required to implement number portability in blocks of 10,000 numbers within two months of Neotel launching such retail services and individual number portability within 12 months of receiving a request from Neotel. We have received a request from Neotel to implement both block and individual portability and we and Neotel implemented number portability in blocks of 10,000 and 1,000 numbers in May 2009. After several delays, mobile number portability Phase One was launched on 11 November 2006. Phase Two, which was implemented in April 2007, includes multi-line porting, secure file transfer protocol access to third parties and operational software upgrades on the central reference data base.

The set-up and per operator costs are typically the largest cost components of implementing number portability. Similar to carrier pre-selection, there is a risk of not fully recovering system set-up costs.

WE HAVE MADE SIGNIFICANT PROGRESS IN REBALANCING OUR FIXED-LINE TARIFFS

Fees and tariffs

We have made significant progress in rebalancing our fixed-line tariffs with a view to focusing more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs and in response to the increased competition.

Regulations made under the repealed Telecommunications Act, but which are still in effect, imposed a price cap (3.5% below inflation, effectively implying a continuous rental decrease) on a basket of our specified services. These include installations; prepaid and post-paid line rentals; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services and our Diginet and Megaline products. A similar cap applies to a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mbps of capacity, and the rental and installation of business exchange lines. Approximately 52% of our operating revenue in the year under review was included in this basket, compared to 54% for the previous financial year.

Mobile and fixed-line termination rate developments

On 12 November 2009 the Minister of Communications announced a reduction in the peak mobile interconnect rate from 125 cents to 89 cents. Off-peak mobile rates are unchanged at 77 cents. This was brought into effect by ICASA from February 2010 with MTN adopting it a month later.

On 16 April 2010 ICASA proposed an additional set of rate cuts that would take both fixed and mobile operators on a two year glide path down to 10 cents (fixed) and 40 cents (mobile) as applied to 'established Significant Market Players' (SMP) operators which include Telkom, MTN, Vodacom and Cell-C only. All other operators are requested to use cost based interconnection, however, they are not regulated accordingly as only the established Significant Market Player operators are submitting Chart of Accounts and Cost Allocation Manual, or COA/CAM accounts. It is uncertain whether the mobile glide paths apply to Telkom Mobile which will be launched in the second half of calendar 2010 as well, however a literal reading of the regulation implies it does. ICASA in addition plans to abolish

The regulatory and competitive landscape (continued)

the difference between peak and off-peak rates for all the established SMP operators. Also to the extent that only a single termination rate is proposed for fixed services, ICASA appears to enforce a distance independent tariff regime on Telkom, as opposed to the current local/long distance based regime. The final outcome of current negotiations regarding the glide path for fixed and mobile termination rates between ICASA and operators is difficult to predict. Telkom is in the process of responding to the regulation and considering our options.

Competition

As mentioned in the overview, competition in the South African fixed-line communications market is intense, and is increasing.

Mobile competition

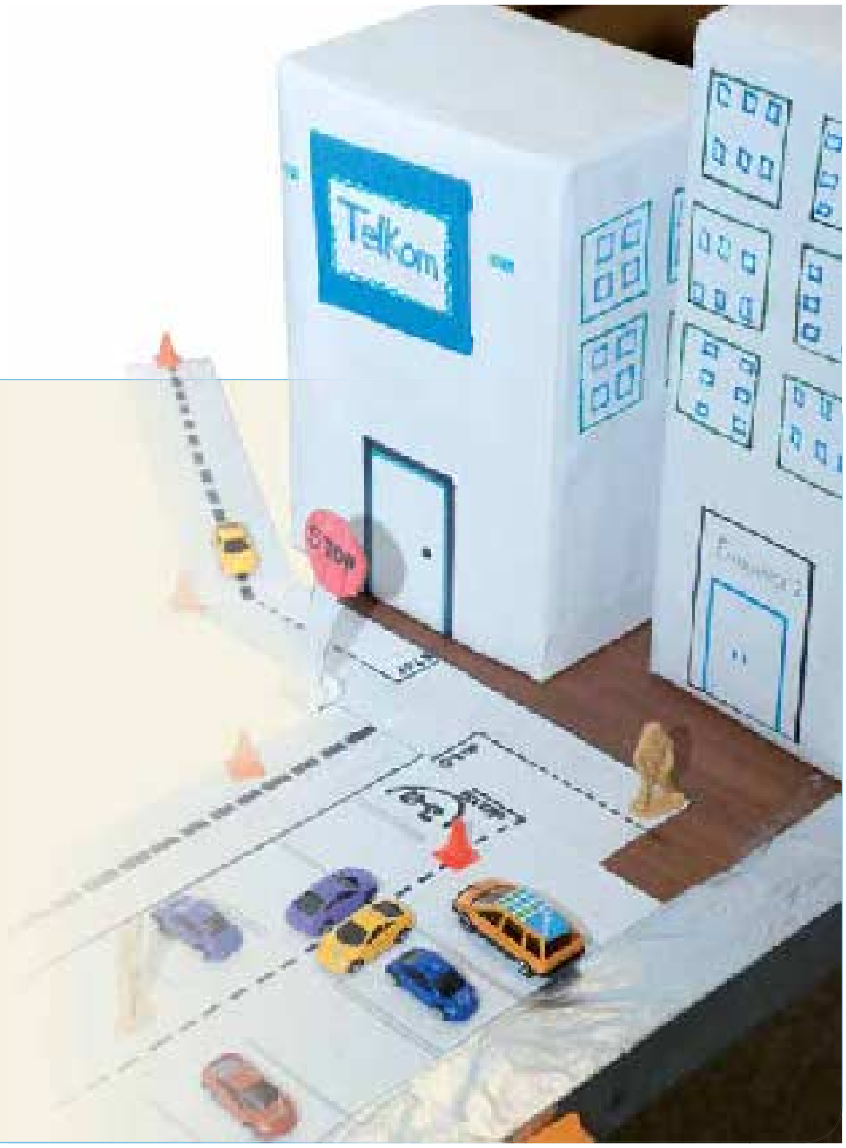
We compete for voice customers with the three existing mobile operators, Vodacom, MTN and Cell C. Vodacom, our previously 50% owned joint venture, was listed on the JSE on 18 May 2009. MTN is a listed JSE company and Cell C has a joint venture with Virgin Mobile.

Additionally we also compete with service providers who use least cost routing technology which enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. Recently, our fixed-line business experienced significant customer migration to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service. ICASA has instituted a review process of mobile termination rates aimed at reducing high mobile interconnect charges which, once completed, will also likely impact on our own termination rates and interconnection revenues.

Data competition

Neotel and the VANS providers such as Internet Solutions and the mobile operators listed above are our main competitors in the data market. The mobile operators all offer 3G, HSPA and EDGE mobile broadband data services that compete directly with our services. These operators have also stated they will start competing in the fixed-line market by building their own infrastructure. Neotel is entering the market through competitive pricing and niche products such as fibre connection and rings. The VANS provide

DOMESTICALLY, EXPANSION INTO NEW MARKETS BY VANS AND MOBILE COMPANIES WILL INCREASE



competitive internet protocol virtual private networks and internet service provider services to the business segment. In the consumer internet market, service providers such as M-Web are our main competitors.

In addition, our data services have faced increased competition from iBurst, a wireless competitor which offers competing broadband services and, to a lesser extent, Sentech, which owns and operates satellite transmission systems, a packaged, always-on bi-directional broadband service via satellite and a wireless high speed Internet service offering.

The mobile data providers have reduced prices significantly resulting in price competition in our data markets. It is our belief that the VANS operators and Internet service providers will increasingly move into the corporate and voice services market while telecommunications service providers aim to expand into the managed data network and international traffic markets. We anticipate that alliances will be formed between VANS operators, telecommunications service providers and content providers to concentrate on the delivery of converged services within the next few years.

Domestically, expansion into new markets by the VANS and mobile companies will occur while the development of new products and services will intensify competition. We also expect a further increase in competitive activity, as a result of consolidation in the market, with competitors growing through mergers, acquisitions and alliances. The entry of multinational corporations into South Africa is expected to be a further incentive for global communications operators which service these corporations abroad to establish or enhance their presence in South Africa.

Competition will also increase as a result of VANS providers' ability to deliver complex managed data solutions and integrated information communications technology solutions, plus the expected future alliances between these providers and fixed and mobile operators. Technological advances will also enable more and more convergence and integration, which in turn will enable more effective competition and use of bandwidth.

As competition increases in the South African market, local telecommunication service providers, including ourselves, are expected to increasingly look to other developing markets for new revenue streams, particularly in sub-Saharan Africa. Internationally, the MWEB Africa and Africa Online businesses already compete with Internet Solutions and MTN Network Solutions, and Verizon is already present in a number of other African markets.

Fixed-line voice competition

On the small business operators front, the Minister of Communications has issued a policy directive to ICASA directing it to, where there is more than one licence in a province, merge the licences and issue one Provincial Under-Serviced Area Network Operator (PUSANO) licence. None of these consolidated licences have yet been issued by ICASA and in his Budget speech of 26 June 2009, the Minister indicated the intention to review the policy in relation to USALs.

WE ARE COMMITTED TO ACTIVELY ENGAGING WITH ICASA TO ENSURE A MUTUALLY BENEFICIAL RELATIONSHIP. WE ADOPT A SIMILAR APPROACH TO ALL REGULATORY BODIES WE ENCOUNTER IN OUR AFRICAN OPERATIONS

Our fixed-line voice business is expected to be further impacted by continuing developments of Voice over Internet Protocol (VOIP) and by the roll-out of limited mobility services with iBurst already offering portable voice services over its wireless network. Additionally, VOIP and other operators with international gateway licences are expected to create increased competition for our fixed-line business in carrying international traffic in and out of South Africa.

We expect that the introduction of number portability and carrier pre-selection could further enhance competition in our fixed-line voice business and increase our churn rates. As competition intensifies, the main challenges our fixed-line voice business faces are continuing to improve customer loyalty through improved services and products and maintaining our leadership in the South African communications market. As a result of this competition we anticipate pressure on our overall average tariffs and a reduction in our market share.

Chairman's review

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

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

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

Economic environment

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

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

Global telecommunications developments

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

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

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

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

Financial performance and strategic direction

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

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

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

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

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

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

Regulatory environment

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

In order for us to continue to invest in future capacity and networks, the regulatory environment should provide a balance by encouraging access by content providers and the need for operators such as ourselves to make a reasonable return on investment.

Corporate governance

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

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

Sustainable development and Broad Based Black Economic Empowerment

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

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

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

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

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

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

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

Appreciation

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

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

Jeff Molobela
Chairman

CONTINUING FOR THE FUTURE

Chief Executive Officer's review

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

On the upside:

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

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

Financial overview

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

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

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

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

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

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

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

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

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

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

Strategic overview

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

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

Defending profitable revenue

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

Chief Executive Officer's review (continued)

loyalty and retention. We also continue to balance our tariffs in our quest to improve our competitiveness.

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

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

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

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

Growing profitable revenue through broadband and converged services

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

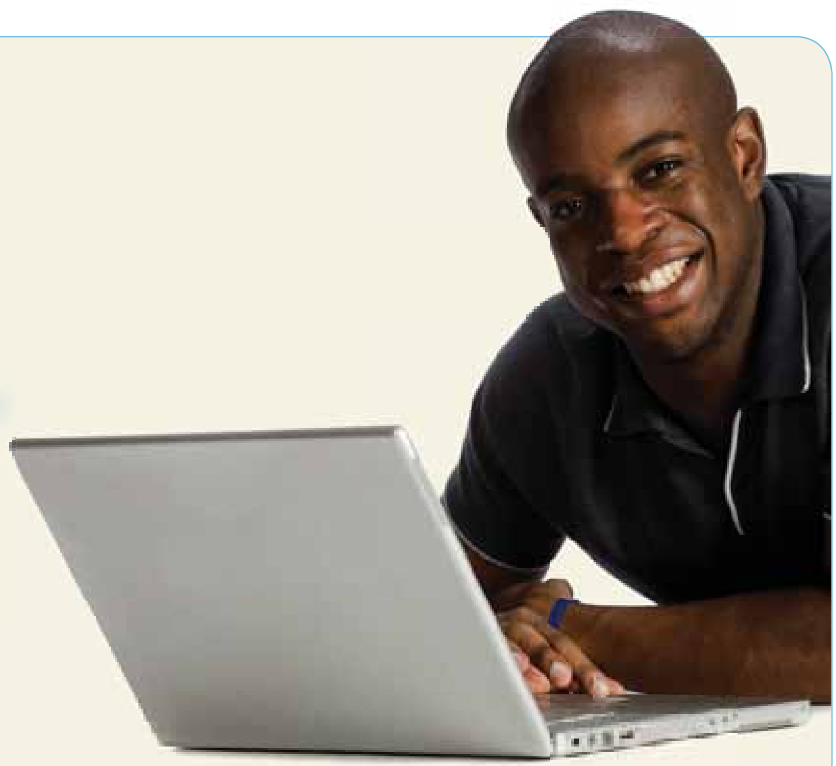
Commercialise data centre offerings

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

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

We are identifying and recruiting the best skills for management, marketing and product development while, at the same time, aggressively pursuing

OUR NEW DATA CENTRE IN BELLVILLE, CAPE TOWN, WILL BE A KEY PLAYER IN GROWING REVENUE



appropriate channel, delivery and equity partners to enable us to enhance our market share and brand positioning. We intend to provide the enterprise market with real time distributed hosting and virtual data centre services, and the consumer market with software as a service (SAAS) and localised data hosting.

Undertaking a steady and selective African growth strategy

Our African investments – Multi-Links, MWEB Africa and Africa Online – have, so far, not lived up to their potential.

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

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

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

Prospects

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

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

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

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

OUR MOBILE SERVICE WILL FOCUS ON QUALITY, VALUE AND SIMPLICITY

Appreciation

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

Conclusion

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

For us at Telkom, the future begins today.

Reuben September
Chief Executive Officer

Chief Financial Officer's review

MOVING TOWARDS MOBILE

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

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

The above items have been excluded from the normalised results.

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

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

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

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

The ordinary dividend has been calculated with reference to Telkom's current and expected future debt and cash flow levels. Our commitment to return to shareholders any proceeds from the Vodacom transaction not used within 24 months enables us to pay a further special dividend of 175 cents per share (2009: 260 cents).

New York Stock Exchange delisting

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

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

Group operating revenue

Normalised Group operating revenue increased by 0.7% to R37,029 million (2009: R36,784 million) in the year ended 31 March 2010. The increase is mainly due to the inclusion of 11 months revenue of our newly acquired MWEB Africa subsidiary and higher revenue from our Trudon subsidiary.

The relative strength of our reporting currency against the Nigerian naira has adversely affected the rand revenue growth of the Nigerian operations at a Telkom Group level.

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

Group operating expenses

Normalised Group operating expenses increased by 8.4% to R32,746 million (2009: R30,220 million) in the year ended 31 March 2010, primarily due to an increase in employee expenses, selling, general and administrative expenses, and depreciation.

The increase in employee expenses is due to the increase in salaries and wages in Telkom South Africa. Higher selling, general and administrative expenses are mainly attributable to Telkom South Africa and Multi-Links. Operating leases increased mainly as a result of Multi-Links's increased use of leased cell sites. Depreciation increased as a result of higher investment in telecommunications network and data processing equipment in Telkom South Africa in recent years.

Investment income

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

Finance charges and fair value movements

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

The balance sheet of Multi-Links was such that it was over-geared and unable to raise debt and creditor financing.

Accordingly Multi-Links issued preference shares which were fully subscribed to by Telkom. The proceeds on issue were used to repay part of the loans owing to Telkom to enable the company to negotiate third party financing.

Chief Financial Officer's review (continued)

From a Group perspective, Telkom's loans to Multi-Links are accounted for as part of the Group's net investment in a foreign operation. Exchange rate differences are therefore recognised in other comprehensive income and reclassified from equity to profit and loss in the event of a disposal of the net investment. This resulted in a reduction of the finance cost paid by the Group.

Taxation

Normalised consolidated tax expense from continuing operations decreased by 29.4% to R1,566 million (2009: R2,219 million) mainly due to lower profitability. The consolidated effective tax rate for the year ended 31 March 2010 was 40.8% (2009: 47.6%). The lower consolidated tax rate is mainly due to lower secondary tax on companies paid in the 2010 financial year on a lower ordinary dividend (R1.15 declared in June 2009 vs R6.60 declared in June 2008).

Profit for the year and earnings per share

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

Consolidated statement of financial position

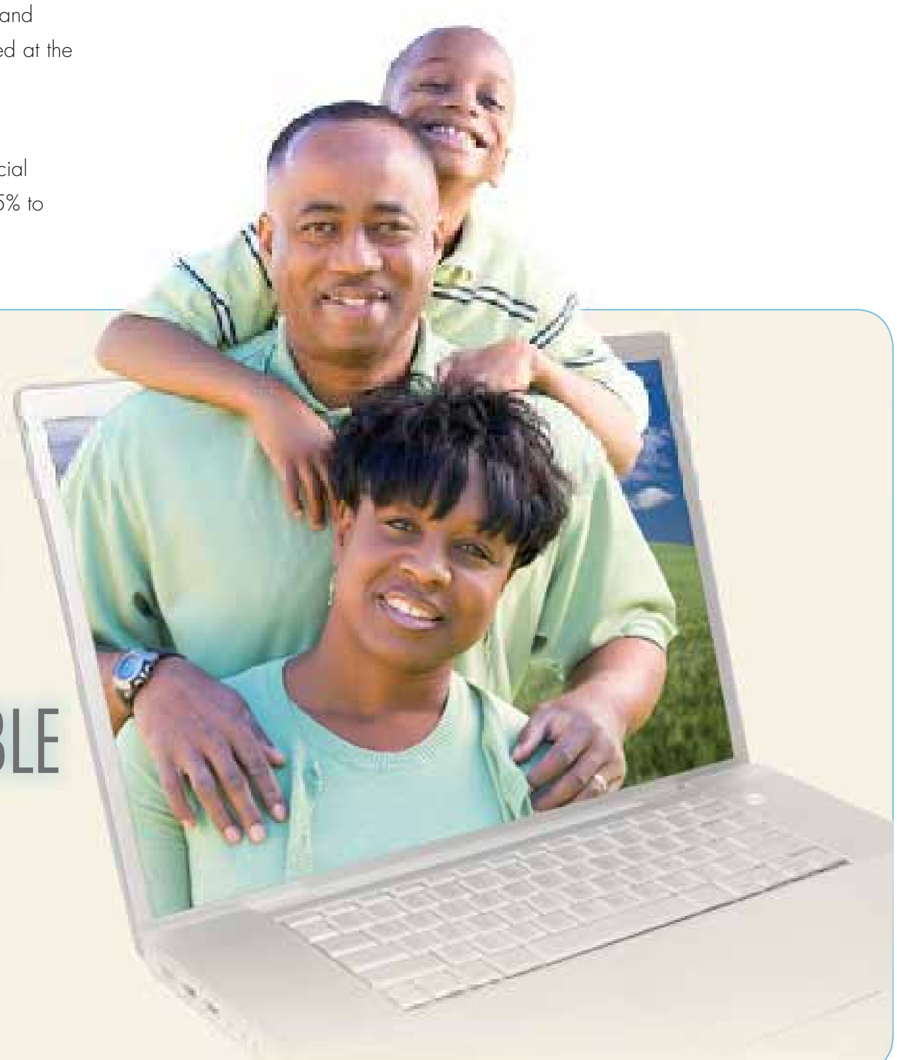
The Group's financial position remains strong. Net debt, after financial assets and liabilities, from continuing operations decreased by 69.5% to R4,723 million (2009: R15,497 million) resulting in a net debt to EBITDA ratio of 0.5 times from 1.3 times at 31 March 2009. On 31 March 2010, the Group had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

The proceeds retained from the Vodacom transaction contributed to the improvement.

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

Group free cash flow

The Group's cash flow for the year includes R20.6 billion proceeds received on the sale of our 15% stake in Vodacom, taxation paid relating to the Vodacom transaction and special dividend of R2.5 billion. Dividends paid amounted to R11.2 billion which includes the R19 per share dividend relating to the Vodacom transaction and the special dividend of R2.60 per share. Excluding the effects of the above, the Group's normalised free cash flow amounted to R5,507 million after the R497 million payment relating to the acquisition of MWEB Africa.



TELKOM'S STRATEGY IS DESIGNED TO DELIVER SUSTAINABLE, PROFITABLE GROWTH

Group capital expenditure

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

Telkom South Africa's capital expenditure, which includes spending on intangible assets, decreased by 36.7% to R4,170 million (2009: R6,586 million) and represents 12.5% of Telkom South Africa's revenue (2009: 19.6%). Funding relating to Telkom Mobile capital expenditure is fully prefunded by shareholders. During the year R181 million was capitalised.

Baseline capital expenditure of R2,366 million (2009: R3,327 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and business areas. The lower expenditure for the period can be attributed to a more measured approach to the rollout of infrastructure to meet short-term demand and revenue generating services. The continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network contributed to the network evolution and sustainment capital expenditure.

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

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

Prospects

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

WE CONTINUE TO FOCUS ON GENERATING CASH FLOW, SPENDING CAPITAL STRICTLY IN AREAS THAT DELIVER RETURNS AND FOCUSING ON COST REDUCTION

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

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

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

Peter Nelson
Chief Financial Officer

Board of directors

JEFF MOLOBELA

Chairman, Class A representative

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

REUBEN SEPTEMBER

Group Chief Executive Officer

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

PETER NELSON

Chief Financial Officer

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

JACKIE HUNTLEY

Class A representative

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

BRAHM DU PLESSIS
Independent

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

DR EKWOW SPIO-GARBRAH
Class A representative

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

JULIA HOPE
Class A representative

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

SIBUSISO LUTHULI
Independent

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

Board of directors (continued)

DR VICTOR LAWRENCE
Class A representative

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

DAVID BARBER
Independent

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

BRIAN MOLEFE
Class B representative

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

PETER JOUBERT
Independent

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

THAMI MSIMANGO
Managing Director of Telkom International

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

Chief officers

NAAS FOURIE
Chief of Strategy

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

OUMA RASETHABA
Chief of Corporate Governance

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

NOMBULELO MOHOLI
Managing Director of Telkom South Africa

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

PIERRE MARAIS
Acting Managing Director of Cybernest

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

JC SMIT
Acting Chief of Human Resources

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

Management team

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

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

Management team (continued)

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

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

Sustainability review

Stakeholder engagement

During the period under review we enhanced our focus on three strategic imperatives:

- Engaging in authentic dialogue and transparent communications with our stakeholders;
- Conveying a clear narrative about our strategic intent and our leadership team; and
- Enhancing our corporate reputation.

Employee engagement

We continued to promote a culture of engagement among all employees through our internal communications campaign. In addition to electronic communications from our CEO, he also toured the country and our African operations to share key insights and address any concerns raised.

We also launched Channel T, an on-line audio visual streaming system transmitted by our Digital Media Services (DMS) directly to all desktops. The system enables employees to participate in live discussions.

As a strong believer in face-to-face communication, we set up a number of sessions with senior management who used the opportunity to expand on our strategy and transformation objectives.

Customers

We continued to see improvements in customer call centre operations; our ability to keep our promises and the reaction time in identifying and dealing with complaints. In our pilot project associated with the EBITDA improvement project we improved average handling times by 25%.

Investors

Our Investor Relations team shared our strategic plans, operational performance and financial results with investors through briefings, roadshows, emails and the Investor Relations website.

Government

Our support for the government's Programme of Action, especially in the areas of economic growth, infrastructure development and the provision of telecommunications for public schools, was again well received.

Regulators

We make regular submissions on new regulations and responses to enquiries from the Independent Communications Authority of South Africa (ICASA) in particular, and comply with Johannesburg Stock Exchange rules and regulations and, where technically possible, with all the regulatory requirements in our operational areas.

Media interface

Given the vast scope of our operations and significant corporate action, there were high levels of media interest during the year. We pride ourselves on rapidly processing media questions and on giving journalists accurate and concise information. Additionally, all customer complaints that came via the media received high-level attention.

To ensure a greater familiarity between journalists and our leadership team, we invited the media to attend major ICT events such as the Southern Africa Telecommunication Networks and Applications conference and the Highway Africa conference and we set up formal and informal meetings between journalists and management.

We continued to forge and consolidate strategic partnerships during the year and, in particular, to mark milestone days in the countdown to the FIFA World Cup™. One such example was our partnership with radio station Kaya FM which broadcast a day long live broadcast from our newly branded tower in Hillbrow, Johannesburg.

The year also gave us the opportunity to showcase the technology we deployed in response to FIFA's information technology and telecommunications specifications. One specific event was a tour by journalists of the landing point in KwaZulu-Natal of our East African Submarine cable system, a key link in our undersea infrastructure which was used by the international media to broadcast their signals to soccer fans around the world.

Suppliers

Telkom was the recipient of the top company award in the 2008 Empowerdex Preferential Procurement on overall spend survey and has continued to focus on our commitment in this regard.

Unions

We again engaged with the unions through:

- the Restructuring Forum, a purely consultative body where we share information with union leaders;
- The Company Forum, the only decision-making structure on issues that require negotiations;
- The National Employment Equity and Skills Development Forum; and
- Task Teams which consist of both management and union representatives and which deal with specific issues.

Telkom reputation measurement and tracking 2009/10

Reputation is a reflection of a company's culture and identity, "the result of what you do, what you say and what other people say about you".

In May 2008 we embarked on a reputation study to measure, track and analyse the attitudes and perceptions among key stakeholder groups from government to shareholders, the financial community, customers, suppliers and employees. To date, approximately 5,000 interviews have been conducted.

Our continuous efforts to build reputation capital are being rewarded by improvements in our overall reputation measurement scores and our future success is founded on our biggest strategic asset, our corporate reputation. To this end, continuing to build stakeholder trust, admiration and respect for the Group underpins everything we do.

Our public visibility and reputation is enormous and to keep track of our reputation among all our stakeholders we make use of the Reputation Industry's proprietary RepTrak ™ Pulse model. This measures the overall assessment of the health of a company's reputation.

The model measures seven reputation dimensions which impact on a company's reputation. These are: Leadership (quality of management and leadership); Performance (financial and growth opportunities); Products/Services (their quality); Innovation (technological advancement and

GIVEN THE VAST SCOPE OF OUR OPERATIONS AND SIGNIFICANT CORPORATE ACTION, THERE WERE HIGH LEVELS OF MEDIA INTEREST DURING THE YEAR

THERE WAS A SIGNIFICANT IMPROVEMENT IN OUR REPUTATION AMONG ALL STAKEHOLDER GROUPS

innovation); Workplace (employment preference and employee well-being); Governance (corporate governance in terms of ethics, openness and transparency), and Citizenship (social/environmental responsibility).

In the year under review, there was a significant improvement in our reputation among all stakeholder groups – external; key influencers; overall customers and employees. Our RepTrak ™ score improved from 36.3 in March 2009 to 40.3 in March 2010, with the highest scoring dimension being Citizenship, with specific reference to our corporate social investment programmes and our commitment to protecting the environment.

For the duration of the tracking study, three reputation dimensions consistently remained perception drivers of the Group – Products/Services; Leadership and Governance. We were encouraged to find that the perceptions of our products and services and our commitment to meeting customer needs improved significantly and our Leadership and Governance scores are improving.

Given that the study showed that stakeholders are more motivated by our ability to innovate new products and services, meet customer needs and offer them value for money, these will remain a priority in our quest to achieve our strategic imperatives and overall vision.

We conduct annual interviews with our corporate and global customers to measure customer loyalty and perceptions of service quality. Between 12 October and 16 November 2009, 350 customers were interviewed and the results were heartening. A significant number indicated they would be likely to recommend us to others; would make use of additional services and that they would continue to use us as their preferred service provider. Equally importantly they said that, compared to 2008/09, they would be less likely to search for an alternative communications provider.

This improvement in loyalty levels is supported by a general trend of improved satisfaction levels across measured aspects. Most importantly, perceptions about the overall quality of our services rose from 43% of customers who rated us as either excellent or very good in 2008/09 to 55% in 2009/10.

Customer perceptions about our technical support, products and services, our overall communications with them and their perceptions of our service managers, all improved significantly.

When evaluating specific reputation results of global industries, it is interesting to note that some have a positive halo and others a negative one. The telecommunications industry falls into the latter category but, compared to the 2008 results, the industry improved its global industry mean by 4.15 points in 2009, which indicates an improvement in the general public's perception of the industry. For us, this presents an interesting opportunity to improve perceptions of companies like us in South Africa.

Repositioning the brand

A comprehensive process to reposition our brand took place in the period under review. The process was twofold – to inject energy into a mature brand and to align employee thinking in support of our strategic direction.

As part of the process we initiated a Brand Champions programme to help us build pride in our brand from the inside. It focused on recruiting and equipping selected employees with the necessary information and skills to bring the brand to life across the business.

Based on customer feedback we developed a new brand for our Data Centre Operations – Cybernest – and are about to launch a Pan-African Internet Service Provider called iWayAfrica through the merger of two of our subsidiaries, Africa Online and MWEB Africa.

To reinforce our involvement with the FIFA World Cup™ we mounted two giant footballs on our Pretoria and Johannesburg towers and we continued to support local soccer through the Telkom Charity Cup and the Telkom Knockout, two major Premier Soccer League (PSL) events.

Corporate governance

THE BOARD TAKES OVERALL RESPONSIBILITY FOR THE GROUP

Compliance

The Telkom Board subscribes to, and is fully committed to, sound business principles and practices of integrity and accountability, and values of good corporate governance as espoused in the Code of Corporate Practices and Conduct of King II (the Code). In so doing, the directors recognise the need to conduct the enterprise in accordance with best corporate practices. We are in the process of implementing the requirements of King III.

The Board is of the view that Telkom complies in all material respects to the principles of the Code. While it acknowledges the importance of good governance, the Board is aware that Telkom does not strictly comply with certain principles set out in the Code. These areas of non-compliance stem mainly from certain provisions in Telkom's articles of association which make provision for certain rights associated with the Class A and B shareholders. Most of the areas of non-compliance will be resolved by no later than March 2011, when the provisions of Telkom's articles of association resulting in non-compliance with the Code fall away or earlier if the shareholding of the Class A shareholder falls below certain stipulated levels.

Chairman and Board of Directors

The Board takes overall responsibility for the Group and its role is to exercise leadership and sound judgement in directing the Group to achieve continued prosperity and to act in the best interests of stakeholders.

Telkom has a unitary Board comprising 12 directors. In accordance with Telkom's articles of association, five non-executives including the Chairman have been appointed by the Government of South Africa (the Class A shareholder) and one non-executive appointed by Black Ginger (the Class B shareholder).

There are four other non-executive directors who are appointed at the Company's annual general meeting or by the Board and are considered to be independent, as set out in King II and the JSE Listings Requirements. The executive directors on the Board are the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). In line with best practice, the roles of the Chairman and Chief Executive Officer are separated. The Board is led by Mr J Molobela, the Chairman, while operational management of the Telkom Group was the responsibility of Mr RJ September, Chief Executive Officer up to 6 July 2010. Mr RJ September resigned from the Group on 7 July 2010 and will assume a consulting role up to 1 November 2010. Mr Jeffrey Hedberg has been appointed as acting Chief Executive Officer. Mr Peter Nelson, Chief Financial Officer resigned effective 9 October 2010. The Board is in the process of sourcing a permanent CEO and CFO.

In terms of the articles of association, the non-executive directors appointed by the Class A shareholder have a fixed term of three years and may be re-elected to the Board by that shareholder. The Chairman has a term of one year and is re-elected as Chairman for the ensuing year by the Class A shareholder. The four independent non-executive directors are subject to retirement by rotation and re-election by shareholders at least every three years in accordance with the articles of association and JSE Listings Requirements.

The holders of the Class A and B ordinary shares are the government of the Republic of South Africa and Black Ginger respectively. The only significant shareholder is the Class A shareholder who currently holds 39.8% of the issued ordinary shares in the Group. The significant shareholder has certain Board-reserved matters which are detailed in the Group's articles of association. Pursuant to the articles of association, while the government is a significant shareholder, neither Telkom nor any of its subsidiaries may take action with respect to certain reserved matters unless authorised by the Board. In addition, the authorising resolution of the Board must have received the affirmative vote of at least two of the directors appointed by the Class A shareholder.

The members' resignations and appointments to the Telkom Board of Directors during the year under review are as follows:

Resignations

ST Arnold (Chairman)	1 November 2009
KST Matthews	30 October 2009

Appointments

J Molobela (Chairman)	1 November 2009
JN Hope	1 November 2009

Company Secretary

All directors have access to the advice and services of the Group Company Secretary, who is responsible for ensuring the proper administration of the Board and corporate governance procedures. The Group Company Secretary provides guidance to the directors on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged.

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

Delegation of authority

The ultimate responsibility for the Group's operations rests with the Board. The Board retains effective control through a well-developed governance structure of Board committees which specialise in certain areas of the

Advocate Ouma Rasethaba, Peter Nelson and Reuben September responding to questions at the AGM held on 16 September 2009.

Team Telkom celebrates the successful broadcasting of the FIFA Confederations Cup™ in June 2009.

business. Certain authorities have been delegated to the CEO to manage the day-to-day business affairs of the Group. The Group executives assist the CEO in discharging his duties and the duties of the Board when it is not in session. However, in terms of statute and the Group's constitution, together with the revised delegation of authority, certain matters are still reserved for Board and/or shareholder approval.

Board meetings

Board meetings are held at least once a quarter. In addition to these meetings, whenever circumstances dictate the necessity, special Board meetings are convened. During the year under review, four scheduled Board meetings were held and three additional special Board meetings were convened. Details of attendance by each director of the Board are set out in the table alongside. Certain members of senior management attend Board meetings when invited to make presentations on particular issues of interest to the Board. A majority of directors, one of whom must be a representative of the Class A shareholder, are required for a quorum for Board meetings.

The following table presents the attendance of meetings held during the 2010 financial year by directors:

	Scheduled		Special	
	Number of meetings[1]	Attendance	Number of meetings[1]	Attendance
Non-executive				
ST Arnold (Chairman) (resigned 1 November 2009)	2	2	1	1
J Molobela (Chairman) (appointed 1 November 2009)	2	2	2	2
DD Barber	4	4	3	2
B du Plessis	4	4	3	3
RJ Huntley	4	4	3	3
PG Joubert	4	4	3	3
VB Lawrence	4	4	3	3
PCS Luthuli	4	4	3	3
KST Matthews (resigned 30 October 2009)	4	4	3	3
JN Hope (appointed 1 November 2009)	2	2	1	1
B Molefe	4	1	3	2
E Spio-Garbrah	4	3	3	3
Executive				
RJ September	4	4	3	3
PG Nelson	4	4	3	3

[1] The table represents the possible meetings based on the appointment and resignation dates of members.

THE DIRECTORS RECOGNISE THE NEED TO CONDUCT THE ENTERPRISE IN ACCORDANCE WITH BEST CORPORATE PRACTICES

Committees

The Board is assisted in discharging its duties through its committees.

Executive Committee

This committee consists of the two executive directors that serve on the Board of Directors and chief executives and managing directors of the Telkom Group. The Chief Executive Officer is the Chairman of this committee and has the power of authority to, among other things:

- Implement approved business plans, annual budgets and all other matters and issues relating to the achievement of Telkom's obligations under its licences, including without limitations network expansion, equipment procurement, tariff setting and packaging, customer service and marketing; and
- Prepare, review and recommend to the Board the annual budgets and any amendments thereto.

Audit and Risk Committee (ARC)

The ARC is chaired by Mr PCS Luthuli, an independent non-executive director. It held four scheduled meetings and two special meetings during the financial year. Mr Luthuli is a Chartered Accountant.

In terms of its charter, the ARC evaluates the Group's systems of internal and financial control; reviews accounting policies and financial information issued to the public; reviews the performance of the internal and external auditors and determines the fees payable to the external auditors. It also determines and monitors the use of the external auditors for non-audit related services. The committee reviews financial results and recommends same to the Board for approval. A quorum for a meeting is a majority of directors (one of whom must be a Class A representative).

As at 31 March 2010, the committee comprised six non-executive directors of which four are considered independent:

PCS Luthuli (independent)
RJ Huntley
DD Barber (independent)
PG Joubert (independent)
B du Plessis
B Molefe

ARC

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
PCS Luthuli (Chairman)	4	4	2	1
B du Plessis	4	1	2	0
DD Barber	4	3	2	2
RJ Huntley	4	4	2	2
PG Joubert	4	4	2	2
B Molefe	4	0	2	0

The terms of reference of the committee were reviewed and approved during the year.
The Audit and Risk Committee conducts the Chief Financial Officer's evaluation as well as a self-evaluation exercise into its effectiveness on an annual basis. The committee conducted the Chief Financial Officer's evaluation, and the committee confirms that it is satisfied with the appropriateness of the expertise and experience of the Chief Financial Officer.

The internal and external auditors have unlimited access to the Chairman of the Audit and Risk Committee.

The Audit and Risk Committee is satisfied that Ernst & Young is independent in accordance with section 270A of the Corporate Laws Amendment Act, and nominated the re-appointment of Ernst & Young as registered auditors for the 2010/2011 financial year.

Nominations Committee

The Nominations Committee, which must have a minimum of three members and is chaired by a non-executive director, consists of Mr Molobela (Chairman), Mr PCS Luthuli, Mr B du Plessis and Ms JN Hope. A quorum for a meeting is two members (one of whom must be a Class A shareholder representative).

The Nominations Committee held three scheduled meetings and two special meetings during the financial year.

Nomination committee

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
J Molobela (Chairman, appointed 11 November 2009)	3	1	2	1
PCS Luthuli	3	3	2	2
B du Plessis	3	3	2	2
ST Arnold (resigned 1 November 2009)	3	1	2	1

The committee makes recommendations to the Board on the composition of the Board, and the balance between executive, non-executive and independent non-executive directors with respect to all aspects of diversity and experience.

The committee is responsible for identifying and nominating candidates and formulating succession plans in conjunction with the Human Resources Review and Remuneration Committee (HRRRC) for the approval of the Board.

In addition, the committee recommends to the Board, continuation (or not) of services of any director who has reached the retirement age as well as directors who are retiring by rotation, for re-election.

Investment and Transactions Committee

The Investment and Transactions Committee, consists of Mr DD Barber (Chairman), Dr E Spio-Garbrah, Ms RJ Huntley, MR PCS Luthuli, Ms JN Hope, Mr B Molefe,Mr RJ September, Mr PG Nelson and Dr VB Lawrence.

The Investment and Transactions Committee held three scheduled meetings and two special meetings during the financial year.

Investment & Transactions

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
DD Barber (Chairman)	3	3	2	1
PCS Luthuli	3	1	2	1
RJ Huntley	3	3	2	2
E Spio-Garbrah	3	3	2	1
PG Nelson	3	3	2	2
RJ September	3	3	2	1
VB Lawrence	3	3	2	2

The function of the committee is to assist the Board in evaluating investments, corporate actions and key funding and financial proposals.

Human Resources Review And Remuneration Committee (HRRRC)

The committee consists of non-executive directors and executive management as provided by the Group's Articles of Association. Ms RJ Huntley, a non-executive director, was appointed Chairman of the HRRRC as of December 2009. The HRRRC comprises the following non-executive directors of which two must be independent:

RJ Huntley (Chairman)
B du Plessis
PG Joubert (independent)
JN Hope
E Spio-Garbrah
RJ September
JC Smit

The HRRRC held four scheduled meetings and three special meetings during the financial year.

HRRRC

	Scheduled		Special	
	Number of meetings	Attendance	Number of meetings	Attendance
RJ Huntley (Chairman)	4	2	3	1
J Molobela (appointed 1 November 2009)	4	2	3	1
B du Plessis	4	4	3	3
PG Joubert	4	4	3	3
JN Hope (appointed 1 November 2009)	4	2	3	1
RJ September	4	1	3	1
JC Smit	4	1	3	1
KST Mathews (resigned 30 October 2009)	4	2	3	1
E Spio-Garbrah	4	4	3	1

This HRRRC, in consultation with management, ensures that the Group's top management and senior executives are fairly rewarded for their individual contribution to the Group's performance. In fulfilling its duties, the HRRRC gives consideration to industry and local benchmarks to ensure that remuneration packages remain competitive. Senior executives receive a salary, short-term incentive and an allocation of shares in terms of the rules of the Telkom Conditional Share Plan. Medical and retirement benefits are also offered. Remuneration packages are reviewed annually and performance bonuses are linked both to individual performance and to the performance of the Group. Non-executive directors are paid fees for their services as directors of the Group and for their participation as members of the Board committees.

Board effectiveness

An appraisal of the effectiveness of the Board was conducted externally during the year. The appraisal was benchmarked against the strategic requirements of Telkom SA to ensure the capacity to deliver these requirements and strengthen the diversity and sector expertise of directors. The appraisal was positive and its recommendations will be implemented.

Corporate governance (continued)

Share dealings

In line with JSE Listings Requirements and the Group's insider trading policy, executives who wish to trade in Telkom securities are required to obtain prior written approval from the Chairman of the Board and the Group Company Secretary before dealing in Telkom securities. The Group operates closed periods as defined in the JSE Listings Requirements. Additional closed periods are enforced, when required, in terms of corporate activities as and when these occur.

Telkom practices in respect of corporate governance are listed in the table below.

Board committees	King II rules	Telkom practice
Board of Directors Composition	The Board of Directors should have a majority of independent non-executive directors	The majority of Telkom's directors are non-executive directors. Four of the 12 directors are considered independent, based on the King II definition of 'independent'. Based on their ordinary shareholding at 31 March 2010, the Class A shareholder is entitled to appoint five directors to the Board, while the Class B shareholder is entitled to appoint one director to the Board. Board members who are not appointed by the Class A or B shareholders are appointed by Shareholders at the AGM and the Board as stipulated in Telkom's Articles of Association. King II defines an independent director as a non-executive director who: • Is not a representative of a share owner who has the ability to control or significantly influence management; • Has not been employed by the Company or the Group, of which it currently forms part, in any executive capacity for the preceding three financial years; • Is not a member of the immediate family of an individual who is, or has been in any of the past three financial years, employed by the Company or the Group in an executive capacity; • Is not a professional advisor to the Company or the Group other than in a director capacity;
Board of Directors Composition		• Is not a significant supplier to, or customer of the Company or Group; • Has not been a significant supplier to, or customer of the Company or Group; • Has no significant contractual relationship with the Company or Group; and • Is free from any business or other relationship that could be seen to materially interfere with the individual's capacity to act in an independent manner.

Board committees	King II rules	Telkom practice
Committees required	At a minimum, each board should have an audit and a remuneration committee. Industry and company specific issues will dictate the requirement for other committees.	Telkom has an ARC, Investment, and Transactions committee, Nominations committee and HRRRC. For the description and composition of these committees and the members refer to page 48. Telkom performs an annual performance evaluation of each committee.
Composition	Committee composition, a brief description of its remit, the number of meetings held and other relevant information should be disclosed in the annual report.	A majority of the committees have non-executive directors as members. However, not all non-executive directors are independent.
Audit Committee		
Written charter	Board committees with formally determined terms of reference, and should be established with clearly agreed upon reporting procedures and written scope of authority.	The ARC has a written charter. The responsibilities of the ARC are described in detail in the charter.
Composition	Committee composition, a brief description of its remit, the number of meetings held and other relevant information should be disclosed in the annual report. All board committees should preferably be chaired by an independent non-executive director, whether this is the board chairperson or some other appropriate individual. Exceptions should be a board committee fulfilling an executive function.	The ARC consists of four non-executive members of Telkom's Board of Directors, three of which are independent. For members' work experience refer pages 32 to 34 under Board of Directors. The Chairman of Telkom's ARC, Mr PCS Luthuli, is a Chartered Accountant.
Disclosure and communication Corporate Governance guidelines	Listed companies are required to adopt, and post on their websites, a set of corporate governance guidelines.	The corporate governance statement is available on the Company's website, www.telkom.co.za/ir.

Internal controls

Telkom has a well established internal control environment monitored by the ARC, whose duties include:

- Assessing the Group's risk areas;
- Consistent monitoring of systems, and processes in place to prevent and/or mitigate these risks; and
- Reviewing the quality of reporting and adherence to internal policies.

This incorporates internal control procedures designed to provide reasonable assurance that the Group's assets are safeguarded and the risks facing the business are being assessed and mitigated.

Telkom's internal controls are based on established written policies and procedures which are monitored throughout the Group and are applied by sufficiently skilled personnel with appropriate segregation of duties through clearly defined lines of accountability and delegation of authority.

The internal control environment is supported by the Group's Business Code of Ethics, setting the standards of professionalism and integrity. An effective internal control environment has oversight from Telkom's active and participative Board and its related committees. The Board reviews and monitors key risk areas and key performance indicators of the business that are essential components of an effective control environment.

The Group's organisational structure facilitates and allows the flow of information upstream, downstream, and across all business activities. This is supported by formal mechanisms in place to communicate the responsibilities and expectations of business activities at executive level.

The Board assesses the Group's risk dashboard and ensures that the necessary procedures are in place to facilitate effective risk management, which entails identifying, measuring and taking action to manage the risk. In discharging its duties with regard to risk management, the Board is assisted by the Telkom Risk Management Committee (TERMC), an executive committee chaired by Peter Nelson, group CFO.

Existing internal control mechanisms are in place to anticipate, identify and react to risks arising from external and internal environments. The risk analysis process is well defined at policy and procedure level providing sufficient guidance on risk assessment and mitigation.

Whilst compliance to Section 404 of the Sarbanes-Oxley Act applicable to companies listed on the NYSE is no longer a requirement, Telkom maintains a similar process to comprehensively evaluate and report on the effectiveness of its internal control over financial reporting on an annual basis. Continuing this effort ensures that Telkom is able to discharge its responsibility to meet internal financial control assessment requirements suggested by King III. Progress reports are submitted at least quarterly to the ARC which in turn reports to the Board.

Corporate governance (continued)

The reports are provided to the Board by Telkom's management with appropriate and timely information about the business, operations and general affairs of the Telkom Group.

Telkom's Internal Audit function, Telkom Audit Services (TAS) plays a key role in providing an objective view and continuous assurance of the effectiveness of the internal control systems throughout Telkom to both management and the ARC. Significant deficiencies and material weaknesses in internal controls are reported to top management or the ARC, and are shared with the external auditors.

Telkom Audit Services (TAS)

TAS, in accordance with best in class practices, is a value-adding, independent and objective assurance and consulting internal audit function, designed to add value to and improve the organisation's operations. Its mandate is to give independent assurance of reliability of financial reporting, validate control systems and give an oversight of management and overall business activities, bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of risk management, internal controls and corporate governance processes. In carrying out its mandate, TAS co-ordinates with other control and monitoring functions (risk management, compliance, security, legal, ethics, environment and external audit).

TAS is required to provide reasonable assurance and to determine whether or not the organisation's control processes and systems are adequate and functioning in a manner to ensure that:

- Resources and assets are effective and efficiently utilised and adequately protected;
- Risks are appropriately identified and managed;
- Significant financial, managerial and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- Significant legislative or regulatory issues impacting on the organisation are recognised and addressed appropriately; and
- Regularly provides an assessment of the adequacy and effectiveness of the organisation's corporate governance, risk and control processes for controlling its activities and managing its risks set down in the mission and scope of work.

To ensure the independence of TAS, the Group Executive of TAS, reports functionally to the ARC Chairman and administratively to the Chief Financial Officer with direct access to the Chief Executive Officer. In this context, the ARC oversees processes related to financial risks and internal controls, financial reporting and the monitoring of internal and external auditing processes. In carrying out its duties, the TAS team has unrestricted access to all Telkom functions, records, property and personnel.

The TAS team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing (IIA). This requires compliance with the Standards for Professional Practice of Internal Auditing (SPPIA), in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives. Internal Audit practices and activities are also benchmarked independently by an authoritative external party as recommended by the SPPIA and required by the ARC. TAS also provides information to management, ARC and the Board on the status and results of the annual audit plan and the adequacy of the departmental resources.

During the financial year, TAS embarked on a co-sourcing arrangement with a consortium managed by PricewaterhouseCoopers to augment the existing resource structure. This augmentation has enabled sufficient attention being directed towards the growth aspirations of Telkom in areas of new business, whilst ensuring that existing business areas receive due attention.

TAS has also initiated the Telkom Combined Assurance Forum (TCAF) as recommended by King lll, aimed at collaborating the efforts of all assurance providers at Telkom in a effort to avoid duplication of assurance effort, optimisation of assurance cost and a better understanding of the business by all participants to the forum.

Further TAS, adopted strategies and techniques aimed at addressing the specific internal audit requirements of King lll, which includes better strategic alignment of the assurance efforts of TAS.

Enterprise risk management

TELKOM'S INTERNAL CONTROLS ARE BASED ON ESTABLISHED WRITTEN POLICIES AND PROCEDURES

An underground gas explosion seriously damaged the Yeoville Exchange in Johannesburg affecting service to hundreds of customers. Telkom's Business Continuity Management team was responsible for dealing with the crisis.

In the year under review we focused on the implementation of the revised Enterprise Risk Management (ERM) strategy which gives us the required alignment to the principles of the King II Code on Corporate Governance. The implementation also gave the various committees tasked with risk management issues a holistic enterprise view of the risks facing us.

Enterprise risk management governance

We manage a number of risks – financial; political; regulatory; technology; human capital; operational; safety, health and the environment; security; strategic and legal – across Africa. These are identified, measured, monitored and responded to through various control mechanisms.

Our Board, which approves the risk management standard and risk appetite* is supported by committees whose responsibilities include:

- Reviewing and recommending to the Board risk management standards, including risk control principles and overall risk measure;
- Reviewing the overall risk appetite and profile of the Group;
- Reviewing significant changes in the risk framework, risk policy and the various procedures that support the risk strategy;
- Reviewing the dashboard of strategic risks that impact on us; and
- Reviewing reports on specific material aspects of our risk governance and risk management processes.

On an on-going basis, risks are managed by the committees (see chart overleaf), mainly through the Audit and Risk Committee (ARC) which reports directly to the Board.

* *Risk appetite is a framework we use to measure the 'amount of risk', on a broad level, that we are prepared to accept in our pursuit of our financial and strategic objectives. As part of our business strategy, it helps management allocate the right resources across the service organisations to ensure we meet our objectives.*

Responsibility and accountability

- **The Board**

The Board, through the ARC, is responsible for the total risk management process and the formation of its own opinion on the effectiveness of the process. The Board approves the risk strategy in liaison with, and through recommendations of, the ARC.

- **The Audit and Risk Committee (ARC)**

Empowered by the Board, the ARC is responsible for reviewing and monitoring our risk management performance, in terms of written guidelines established by it, and for providing an on-going high level risk assessment to the Board. To ensure it fulfils its responsibilities, the ARC can access any information it needs.

- **The Executive Committee (EXCO)**

EXCO is responsible for the design, implementation and monitoring of the enterprise risk management strategy. In terms of this, EXCO has delegated the responsibility for the design and implementation to the enterprise risk management division. EXCO monitors the strategy and overall risk exposure of the Group on an on-going basis and implements the required actions as and when required.

- **Telkom Executive Risk Management Committee (TERMC)**

This is a dedicated risk management committee appointed by the ARC to implement an effective risk management process that will optimise our risk taking by ensuring the thorough identification, measurement and implementation of effective risk response strategies.

- **Group management**

The senior and line management teams of our service organisations are responsible for effective identification and management of risks in their domains.

Enterprise risk management framework

Risk is an unavoidable consequence of doing business but, managed correctly, it gives us the opportunity to operate competitively. As part of our quest to be the leading customer and employee-centred ICT solutions service provider, the risk management approach that we adopt triggers an informed and dynamic response through the evaluation and management of the numerous opportunities and threats across our business environment.

Protecting our assets

Our Asset and Revenue Protection Services (TARPS) section minimises, prevents and combats fraud, corruption and theft, primarily through forensic investigative services.

In the year under review, no major fraud-related incidents were reported and asset theft was reduced by 41%, thanks to efficient and effective security measures and management controls. Our zero tolerance approach to criminal and unethical behaviour appears to be paying off.

The Telkom Crime Hotline 0800 124 000

Since the Hotline was contracted out in January 2009, 2,553 incidents were reported and forwarded to TARPS. Some 2,543 incidents were reported internally (the majority were the loss/theft of laptops, computers and cell phones).

Security services

To ensure the efficient management of our security services, TARPS relocated and improved its National Security Control Centre. This centralised centre supports the enterprise risk management strategies to ensure we achieve our business objectives.

Business Continuity Management (BCM)

Our BCM group organises and aligns the Group's country-wide business continuity and disaster recovery related operations, systems, structures and networks. It does this through creating BCM awareness; providing training and support and conducting business continuity and network disaster recovery exercises several times a year.

The Group's readiness was put to the test in January 2010 when our Yeoville, Johannesburg exchange was severely damaged following an underground gas explosion. Our emergency management team successfully swung into action and a new exchange was built and operational within three weeks and 100% service was restored by the end of February.

Going forward

Our key focus areas for the year ahead are:

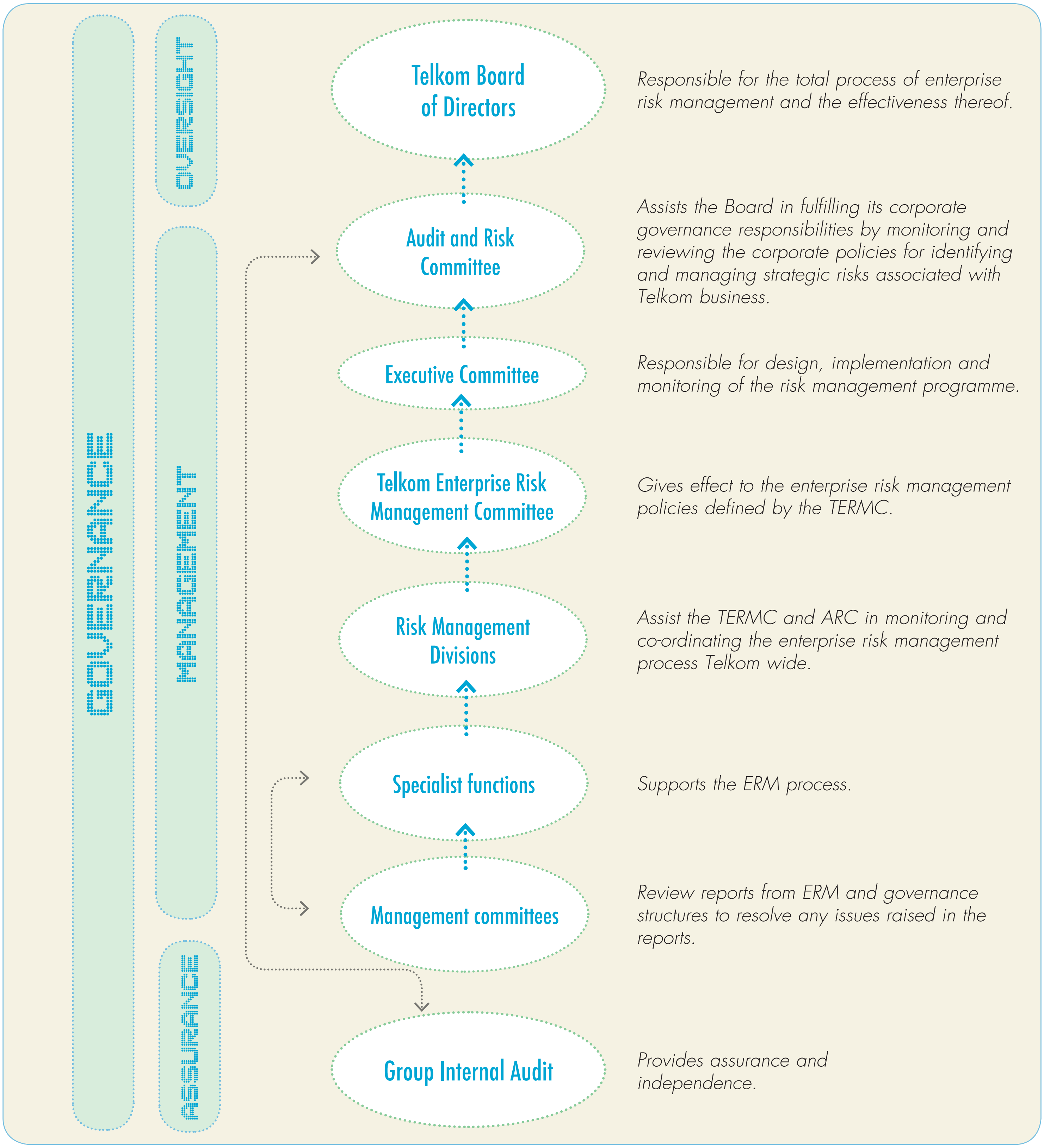
- To continue to drive the maturity of the enterprise risk management strategy;
- To upgrade and continue the deployment of our risk management training programme;
- To align corporate governance and ERM to the King III code;
- To conduct compliance risk assessments in terms of the agreed framework;
- To create an independent division by separating ERM from the ARC, while ensuring that auditing is still an integral part of risk management; and
- To significantly enhance the quality of ERM reporting.

We will also continue to improve our internal and external communications via a review and further development of our risk management processes. The risk management database will also be updated on an on-going basis.

Enterprise risk management (continued)

Enterprise risk management governance

Enterprise risk management at Telkom is guided and monitored by various committees that have adopted certain principles to assist them in executing their respective enterprise risk management functions. The model below outlines the key enterprise risk management structures, the key role-players and their roles and responsibilities.



Statistics

	2007/08	2008/09	**2009/10**
Total incidents reported	7,954	7,216	**5,096**
Total cases investigated	7,838	7,116	**4,360**
Total cases resolved	6,427	5,960	**3,746**
Case types investigated			
TARPS investigations			
Asset theft	2,026	2,573	**1,519**
Burglary	141	196	**75**
Business code of ethics	293	265	**413**
Fraud	124	130	**159**
Line management requests	27	15	**4**
Payphones	157	112	**–**
Reputational risk (refund scam)	469	657	**134**
Robbery	159	244	**49**
Security breaches	16	16	**11**
Vehicle	39	19	**7**
Total TARPS investigations	3,451	4,227	**2,371**
Cable	3,198	2,018	**1,246**
Network	716	690	**549**
Solar panel theft	473	181	**112**
Payphones	–	–	**82**
Total NPS investigations	4,387	2,889	**1,989**
Successes			
Number of arrest	1,079	568	**520**
Number of convictions	165	128	**81**

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 the related notes included elsewhere in this annual report before making an investment decision with regard to Telkom's ordinary shares.

Risks related to our business

- We may be affected by global economic and financial conditions.
- Our ability to successfully implement the mobile strategy and compete against incumbent cellular operations.
- The financial performance of our Multi-Links subsidiary is poor. The Board is considering strategic actions to maximise shareholder value from this investment.
- Increased competition in the South African communications market and a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business.
- Increased competition in the South African data communications market.
- We may not be successful in implementing our strategy of transforming from basic voice and data connectivity to fully converged solutions offering integrated voice, data, video and internet services and managing costs.
- There are significant political, economic, regulatory, taxation and legal risks associated with our African investments outside of South Africa.
- The number of commercially attractive acquisition and investment opportunities for our fixed-line and mobile businesses on the African continent is limited.
- The growth in the mobile market in South Africa has resulted in an increase in the number of Telkom calls terminating on mobile networks as opposed to our fixed-line network.
- Our ability to continue to improve and maintain our management information and other systems.
- The possibility of losing key personnel or the inability to hire and retain highly qualified management, employees and partners.
- Telkom's ability to successfully grow revenues, profits and cash flows from its existing and new businesses.
- We have negative working capital.
- Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments in technologies and equipment.

Enterprise risk management (continued)

- High rates of theft, vandalism, network fraud, payphone fraud and lost revenue experienced due to non-licensed operators in our fixed-line business.
- Delays in the development and supply of communications equipment may hinder the deployment of new technologies and services.
- Actual or perceived health risks relating to mobile handsets, base stations and associated equipment and any related publicity or litigation.

Risks related to Telkom's ownership by the government of South Africa and major shareholders

- Telkom's major shareholders are entitled to appoint the majority of Telkom's directors and exercise control over Telkom's strategic direction and major corporate actions.
- The government of the Republic of South Africa may use its position as shareholder of Telkom and policymaker for, and customer of, the telecommunications industry in a manner that may be unfavourable to us.

Risks related to regulatory and legal matters

- Telkom's interpretation of existing regulations, the adoption of new policies or regulations that are unfavourable to us, or the imposition of additional licence obligations and fees on us.
- Our tariffs are subject to approval by the regulatory authorities.
- The amount of any payments to Telcordia Technologies Incorporated, in the arbitration proceedings against Telkom.
- We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission.
- The possibility that we are required to unbundle the local loop, or are unable to negotiate favourable terms and conditions for the provision of interconnection services and facilities leasing services or ICASA finds that we have significant market power or otherwise imposes unfavourable terms and conditions on us.
- Telkom's ability to recover the substantial capital and operational costs associated with the implementation of carrier pre-selection and number portability.
- The cost and customer churn associated with the implementation of the Regulation of Interception of Communications and Provisions of Communication-Related Information Act, or RICA.
- Telkom could be required to comply with the provisions of the South African Public Finance Management Act, 1 of 1999, or PFMA, and the provisions of the South African Public Audit Act of 2004, or PAA, which could result in delisting of our ordinary shares.

Risks related to the Republic of South Africa

- Fluctuations in the value of the rand and inflation rates in South Africa.
- The levels of unemployment, poverty and crime in South Africa.
- High occurrences of power outages in South Africa.
- The high rates of HIV infection in South Africa.
- Significant labour disputes, work stoppages, increased employee expenses as a result of collective bargaining and the cost of compliance with South African labour laws.
- South African exchange control restrictions could hinder our ability to make foreign investments and procure foreign denominated financing.

Risks related to ownership of Telkom's ordinary shares

- The future sale of a substantial number of Telkom's ordinary shares could cause the trading prices of Telkom's ordinary shares to decline.
- Your rights as a shareholder are governed by South African law, which differs in material respects from the rights of shareholders under the laws of other jurisdictions.
- It may not be possible for you as a shareholder to effect service of legal process, enforce judgments of courts outside of South Africa or bring actions based on securities laws of jurisdictions other than South Africa against Telkom or against members of its Board.
- Your ability to sell a substantial number of ordinary shares may be restricted by the limited liquidity of ordinary shares.

Black economic empowerment

WE OFFER SKILLS TRAINING AND HELP IN DEVELOPING A QUALITY CONTROL SYSTEM FOR SUPPLIERS

Telkom was certified as a Level 4 contributor to BBBEE by the South African National Accreditation System approved verification agency, the National Empowerment Rating Agency (NERA). Telkom is recognised as a value added supplier. This allows our clients to recognise 110% of their procurement spend with us.

Below is Telkom's performance on the current BBBEE scorecard

Element	Score	Possible
Ownership	15.39	20
Management control	9.63	10
Employment equity	9.41	15
Skills	9.36	15
Procurement	19.12	20
ED	5.3	15
SED	5.0	5
Total		**100**

The company's BBBEE verified results have resulted in the following highlights:

- In ownership, after allowable exclusions, Telkom's black shareholders' percentage shareholding emerged as 28.2% where the Codes of Good Practice require a 25% black shareholding.
- In management control, Telkom was ranked the ninth most empowered company on the JSE Securities Exchange by the 2010 *Financial Mail Top Companies Survey*. This ranking reflects that we are committed to the transformation of the Board and top management structures. In addition, bonus points were awarded to Telkom for our BBBEE scorecard for black independent non-executive Board members.

Our Preferential Procurement continues to be recognised as a champion in driving economic transformation among JSE-Listed companies, state-owned enterprises and in the ICT sector. Procurement from BBBEE-accredited suppliers amounted to R9.3 billion out of a total procurement spend of R13.2 billion. Within this spend range, Telkom directed R825 million to Qualifying Small Enterprises (QSEs) and Exempt Micro Enterprises (EMEs); R4.6 billion to 51% black-owned businesses and R930 million to 30% black women-owned businesses. Telkom exceeds three of the four preferential procurement targets from the Codes of Good Practice. To increase participation from black QSE/EME suppliers, we offer skills training and assistance to them to help them develop a quality control system to enable them to gain more of our business.

We scored 19.1 out of 20 for the preferential procurement pillar of the BBBEE Scorecard compared with 18.6 for the previous assessment. We have an initiative underway to pay for verification certificates for the black suppliers who fall within the category of EMEs to ensure that these suppliers comply to the BBBEE codes further displaying the company's commitment and support to both the BBBEE codes of good practice and its black suppliers.

Scorecard Element	Telkom's current performance (Unverified)	Target as per the Codes
Recognition level spend as a % of Measurable Procurement Spend	86.9%	50%
QSEs/EMEs recognition level spend as a % of Measurable Procurement Spend	7.4%	10%
Black Recognition level spend as a % of Measurable Procurement Spend	35.7%	9%
Engendered Recognition level spend as a % of Measurable Procurement Spend	8.3%	6%

**The above figures are preliminary.*

- We fully comply with the targets as specified by the codes for the senior management level of the scorecard. We have developed employment equity targets to address the challenges the organisation faces in terms of increasing the diversity of its workforce, especially the representation of black women and black disabled people in the middle and junior management levels of the Group. Through our Human Capital and Diversity Strategy, we aim to ensure that our workforce reflects South African demographics in terms of race, gender and disability. We also have various programmes in place, including a dedicated talent management division, to attract and retain black employees, especially women. Overall black representation in the workforce has risen to 62% in the year under review, and the proportion of disabled employees has risen from 0.93% in 2007 to 1.22% in the year under review. We continue to drive various initiatives across the Group to ensure that our policies and guidelines attract and support the recruitment of people with disabilities and to encourage the disclosure of current employees with disabilities. In order to achieve this critical objective we have established a disability working group to manage this initiative.

- As part of the our continued commitment towards Enterprise Development, more than 140 black-owned companies are beneficiaries of a short-term payment policy that facilitates the settlement of invoices in less than 15 days. Another initiative includes training provided by senior employees in the Procurement division to enable suppliers to comply with quality standards required to enable them to be efficient and effective.

Management has worked hard at identifying various sustainable initiatives in this area to improve current enterprise development contributions.

One of the many success stories in the Enterprise Development area is that of Delta Florists. Mrs Delta Tefu has been providing flowers to Telkom and others for the past 13 years from a small room on our parking level. Due to space constraints, we decided to fund the opening of a florist shop for Ma Delta as part of our Enterprise Development initiative, and this was officially opened on 31 March 2010. We will contribute to pay the shop's rental for the first five years, as well as costs for utilities, fittings and renovations of the premises. Part of the agreement involves training the florist's staff on customer service, finance, marketing, and all relevant legislation. A further aspect of this development involved providing Ma Delta with a mentor – a retired florist who is affiliated with several florist organisations.

- Telkom recognises that we have a critical role to play in transforming communities and in ensuring that they are sustainable. In socio-economic development, the Telkom Foundation has spent R52 million on various initiatives aimed at improving communities. Some of these initiatives include:
  - Equipping schools with infrastructure and educational tools;
  - A mobile library to ensure access to education for people in rural areas;
  - Providing bursaries to disadvantaged pupils throughout the country that covers their entire high school education; and
  - Teacher development specifically in areas of Maths and Science
- Internet connectivity and other information technology equipment to schools.

Scorecard element	Telkom's current performance (unverified)	Target of the Codes
Recognition level spend as a % of measurable procurement spend	86.9	50
QSEs/EMEs recognition level spend as a % of measurable procurement spend	7.4	10
Black recognition level spend as a % of measurable procurement spend	35.7	9
Engendered recognition level spend as a % of measurable procurement spend	8.3	6

** the above figures are preliminary*

Human capital management

WE OPERATE IN ONE OF THE FASTEST CHANGING INDUSTRIES IN THE WORLD

We operate in a largely deregulated market where all players have access to the same technology, systems and customers. As a result, there is a growing understanding that our people are what will distinguish us in the marketplace.

This is a comforting, but challenging, situation to be in. The average Telkom employee is 41 years old and has been with the Group for 17 years, giving us access to a mature and sophisticated workforce with a proven track record. However, we operate in one of the fastest changing industries in the world, which means our employees must be extremely flexible and adaptable to change and thus our ability to transform our Group will be impacted by our employees' ability to change.

As a result we have developed a five year human capital strategy which will form the foundation of our platform to transform our employees into a truly competitive workforce geared to taking full advantage of all market opportunities. This strategy has two focus areas:

- Talent – ensuring we have enough human capital capacity and capability to execute current and future business strategies and our target is to supply and retain 95% of our business's critical talent.
- Culture – establishing a 'shared' value-based organisational culture which is driven through effective leadership and reflected in the positive behaviour/performance of all employees.

The strategy is designed to support line management in unlocking the full potential of the workforce and its implementation started in the last quarter of the year under review.

Reorganisation

On 1 April 2009 we announced our new Group structure and business model. Essentially we reorganised our business into three units, each responsible for its own profit and loss, and a corporate centre. By the end of the year under review, the new structure was well entrenched. Some of the key factors were:

- Telkom South Africa – 21,007 permanent employees were transferred into this unit with many assuming new roles and responsibilities. Some traditional corporate functions, for example finance and human resources, were also moved into the unit to ensure end-to-end accountability.
- Cybernest – a total of 545 permanent employees were transferred from the old IT division, network operations and support functions into this unit. This number was supplemented by a focused external recruitment drive.

Our workforce

Currently we employ 23,247 permanent employees, 1.2% less than the previous year. The majority of our people (68%) are deployed in operational and support roles. Some 21% are in supervisory roles and 11% in management. The proportional distribution of our people largely corresponds with our existing and potential customer base.

Staffing and staff exits

Over the year our natural attrition rate decreased to 3.7% (9.9% in the previous year) and resignations decreased to 2.49% (8% in 2008/09) largely because, we believe, there are fewer job opportunities in the broader industry as a result of the economic situation. In an attempt to improve operational efficiencies, vacancies were reallocated and used to rebalance skills levels across the Group to support our key business strategies.

Headcount management

	2007	2008	2009	**2010**
Opening balance	25,575	25,864	24,879	**23,520**
Employee gains	1,512	918	1,047	**592**
Appointments	1,486	891	1,034	**584**
Re-instatement	26	27	13	**8**
Employee losses	1,223	1,903	2,406	**865**
Employee retrenchments**	20	4	10	**0**
Voluntary early retirement	7	2	5	**1**
Voluntary severance	13	2	5	**0**
Involuntary reductions	0	0	0	**0**
Natural attrition	1,203	1,899	2,396	**864**
Closing balance	25,864	24,879	23,520	**23,247**
Other employees*	5,807	3,801	4,307	**3,557**

** Other employees refers to contract and temporary employees but excludes Board members, learnerships and bursary students.*

*** Employee retrenchments for 2009 were employee initiated.*

Compensation and benefits

Remuneration

While the fixed (guaranteed) remuneration packages are reviewed annually, in certain critical skills areas, depending on the supply and demand of these skills in the market, there are ad-hoc reviews to ensure we remain competitive.

Non-executive directors

The directors, on the recommendation of the Human Resources Review and Remuneration Committee, determine the fees of the non-executive directors who do not participate in the top management incentive scheme. These fees are set out on page 203 and in Note 39 in the consolidated annual financial statements.

Executive remuneration

Currently, remuneration is set at the market median and independent remuneration consultants advise the Board's Remuneration Committee on executive management packages. Guaranteed packages are influenced by the scope of each individual's role, knowledge, skills and experience. These are reviewed annually as part of the overall remuneration review process and assessed against individual performance. Our philosophy, which is aligned to market analysis, is to reward all employees on total earnings of the market median.

Other employees

All employee increases – management and bargaining unit – are approved by the Board. Non-management employees are paid in terms of the negotiated agreements with the relevant unions.

Short-term incentive plan

We have an incentive scheme for management based on a balanced set of measures determined by the Board. These consist of financial and key performance driven targets based on the business plan. All other employees participate in an incentive scheme, with different measures applied at lower levels. In the top management scheme, the financial driver accounts for 50% of the total and this is measured by EBITDA, return on assets (ROA) and the defend and grow revenues strategy. Performance drivers (customer satisfaction) account for 20% and a further 30% is allocated for individual performance.

Long-term incentive plan

All employees, subject to their individual performance for each year preceding the allocation, receive conditional shares. This allocation is based on the average share price 10 days before 1 June (the award date) each year, using a percentage of the employees' total package.

Our employees have no right or title to the shares and cannot receive dividends until the shares have vested. This will only happen if we meet our annual financial targets, set out in the relevant team award plan, and the employees must remain in continuous employment. We concluded the final vesting of shares in accordance with the Telkom Conditional Share Plan in June 2010. However, the Group plans to introduce a new share scheme subject to shareholders' approval.

Performance management

Our performance management system is one of the key attributes to the renewed focus on organisational renewal. Leadership will be measured on the behaviours that will ensure we improve on the value we extract from employees. Managers keep in touch with employee progress throughout the year and offer immediate reinforcement or coaching to keep performance on track. A five point measurement scale helps us focus leadership behaviour on the right business objectives.

The Telkom Pension Fund and Retirement Fund

As of 31 March 2010, there were 120 members of the old Pension Fund and 23,155 members of the Telkom Retirement Fund. Both are financially sound.

Rewards and recognition

Our 'Name In Lights' programme recognises outstanding achievements by employees or teams who go the extra mile. The most prestigious award is the CEO Award which, in the year under review, was presented to the Software Performance Assurance team of Derick van der Merwe, Theuns Bothma, Malan Coetzee, Leendert Meyer, Rudi Barnard, Maryke Winterbach, Willie van Niekerk, Wynand Beukes and Analine van der Merwe. (See box below for full details).

The CEO Award

We are critically reliant on software applications in key business processes, particularly fulfilment and assurance. These applications are highly integrated and are used daily by our employees and on-line customers. A lack of application tools resulted in avoidable downtime, slow restoration and poor performance.

Our Software Performance Assurance team acquired and deployed a 'Foglight' tool for application performance monitoring and pro-active alerting of any service degradation. The team also custom-built a transaction tracing tool which was integrated into 'Foglight' and this, according to a software vendor, Quest, "has given Telkom an understanding of how your key applications are performing that very few organisations have".

As a result of 'Foglight's' success, application downtime was avoided on numerous occasions and there was a significant improvement in overall availability and performance, resulting in increased staff productivity and customer satisfaction.

In addition, a further three Gold, 11 Silver and 10 Bronze awards were made.

As part of our overall rewards process we recognise employees of the month/quarter and, on average, more than 250 employees are honoured with 'Spotlight' awards each month.

Training and development

Our Centre For Learning (CFL) is dedicated to unlocking the potential of all our employees through flexible and relevant development solutions. The centre has six regional campuses and approximately 250 professional learning and development specialists.

In the year under review we trained 41,258 students to help them perform better.

Human capital management (continued)

- Technical training

  Some 73% of training was focused on building technical skills such as IP telephony, NGN Broadband, ADSL, OSS/BSS and IT to help support our defend and grow strategies.

- Business acumen

  An additional 27% of all training initiatives focused on building business acumen, including improving management and leadership quality, commercial marketing and sales and Safety, Health and the Environment (SHE).

- Building future capacity (internships, skills programmes, learnerships)

  These initiatives, in which we invested R62 million, are aligned with, and form part of, the government's Jobs Initiative on Priority Skills Acquisition (JIPSA). To date, 1,670 students completed a 12 months programme and 1,016 of them obtained employment in the sector. An additional 348 students are busy with their development programmes. Some 94.7% of the students were black, and 60.5% male.

Our Centre For Learning, through JIPSA, also hosted an annual ICT career expo in September 2009. Sponsored by DoC (the Department of Communications), various industry players supported the event which was attended by 250 people.

We also established a high tech computer LAB in partnership with Meraka-e-Skills institute. The partnership model is proving to be very effective in ensuring a future supply of young talent for the industry at a relatively low cost.

Employee engagement

Culture revitalisation

Culture revitalisation was identified as a priority in our transformation process (Telkom Renaissance) and the Barrett Culture Tools and Transformation process was the most suitable vehicle to enable us to advance to a value-based performance culture.

We conducted a Group-wide culture values assessment to determine the current culture, then the desired culture and the identification of non-productive or limiting aspects of the current culture. Some 6,337 employees at all levels participated in the survey.

Appropriate interventions and actions to be taken to help us move towards the desired culture were established via a communication and feedback and engagement process across the Group, along with activities and workshops with top and executive leadership. These identified a new and fresh set of values and behaviours by 6,427 employees. These are awaiting approval.

Employee engagement is closely related to our culture and, over the last two years, we have shown a steady improvement in engagement levels from 52% in 2008 to 68% today. Equally pleasing was the fact that 71% of employees said they would remain employed by us.

The initial stages of the programme are aimed at equipping our top leadership with the skills and capacity to lead the change of culture revitalisation. Companies that have successfully transformed their corporate culture to that of being a values driven performance culture have consistently outperformed others in the areas of job creation (seven times better); stock price growth (12 times faster) and profit performance increase (750% up) over a four year period.

Our time frame for this change is between three and five years.

Employee relations

We have reached a two year agreement with organised labour that addresses general salary increases and addresses the issue of salary disparities. As a result of the latter, from 1 August 2009:

- Employees remunerated between the 0th and 29th percentile moved to the 30th percentile and received a 7.5% general increase on the 30th percentile;
- Employees remunerated between the 30th and 40th percentiles moved to the 45th and received a 7.5% increase; and
- Employees remunerated on the 45th percentile or above qualified for a 7.5% increase.

Type of employee	Union	Total	%
Bargaining Unit	CWU	8,238	39.79
	S.A.C.U	4,378	21.15
	Solidarity	2,942	14.21
	No affiliation	54	0.26
	No union	5,090	24.59
Bargaining Unit total		**20,702**	**100.00**
Management	CWU	165	6.48
	SACU	309	12.14
	Solidarity	161	6.33
	No affiliation	231	9.08
	No union	1,679	65.97
Management total		**2,545**	**100.00**
Grand total		**23,247**	**100.00**

Talent management

Over the reporting period we managed to retain more than 95% of our current talent.

In consultation with the Boston Consulting Group we started a process to implement strategic workforce planning to give us a 10 year view of our skills requirements. The process will be concluded in the 2010/11 financial year and will give us a sound foundation to improve our competitiveness and effectiveness.

The table below outlines the current bench strength of our talent management pools.

International operations

- **Multi-Links**

  This is our largest offshore operation with 767 employees. Some 92% are Nigerian; 5% South African and 3% Indian.

  Multi-Links also embarked on a culture transformation journey with 60% of the staff participating in a culture survey. The survey indicated some deficiencies and these will be addressed.

- **African ISP (Africa Online and MWEB Africa)**

  The main focus in the year under review was to leverage economies of scale between the two companies and consolidate operations and the 562 employees into one unit, before any restructuring because of synergies between the two companies.

Talent pool	Number
Pool 1 **(Top leadership Successors)**	30
Pool 2 **(Executive Leadership)**	110
Pool 3 **(Global and Business Talent)**	40
Pool 4 **(Specialised Skills/Managerial Potential)**	427
Pool 5 **(Young Talent/Rising starts)**	118
Total	**725**
Graduate Development Scheme Statistics	
Full Time Bursary Students (Studying)	767
Part Time Bursary Students (Studying)	670

WE SUCCESSFULLY PILOTED A STRESS RESILIENCE AND EMOTIONAL INTELLIGENCE WORKSHOP

Our Employee Wellness and Safety, Health and Environment (SHE) portfolio once again played a key role in optimising employee performance and productivity during the year, as evidenced by the following achievements.

- We came second in the corporate category of the Eastern Cape's regional Southern Africa Business Coalition (SABCOHA) on HIV/AIDS Workplace programme competition.
- As part of the World AIDS Day celebrations, our Thuso team adopted 54 havens, orphanages, hospices and related support and care institutions and our employees donated thousands of kilograms of non-perishable foods, toys, books, clothes and household goods to the institutions.
- Two disabled employees who were hampered by medical aid constraints received their corrective interventions – a prosthesis for the leg of a paraplegic employee and a cochlear implant for another – as a result of the Thuso Wellness Team's intervention.
- We successfully managed the impact of the swine flu pandemic.
- A shift work toolkit was implemented in selected high volume and workload contact centres to counter stress.
- Overall compliance of HIV/AIDS positive population of ± 95% in terms of treatment protocols, leading to improved sick leave indices amongst our HIV population. On average, the number of sick days taken by our HIV/AIDs positive employees was 13/14 days, compared to an external benchmark of more than 40 days.
- A colony of Angolan Longtail bats was successfully relocated from one of our exchange buildings in Mpumalanga to a customised Bat House.

Absenteeism through illness

There were no significant variations in absenteeism through illness, as illustrated by the table below. However, holistically, the sick leave indices indicate that employees were more ill but for shorter periods, which is usually associated with possible sick leave abuse, a very lenient sick leave policy and/or a poor acute wellness/health profile.

Sick leave measure	06/07	07/08	08/09	09/10	09/10 variance %	08/09 variance %
SAR (%) Defined as total number of sick days as % of total available man-days	2.24	2.51	2.52	2.55	**(1.2)**	**(0.3)**
ASR (days) Defined as the average number of days used per sick leave incident	2.45	2.48	2.52	2.42	**4.13**	**(1.7)**
AFR (incidents) The average number of sick leave incidents per sick leave user	3.38	3.59	3.52	3.68	**(4.54)**	**2**
SUR (%) monthly average Number of sick leave users per month as a % of total number of employee population	15.7	17.3	17.3	17.56	**(1.5)**	**–**
SUR (%) year-to-date Number of sick leave users progressively utilising sick leave as % of total number of employee population (all sick leave users are only calculated once)	67.2	70.1	71.7	71.5	**2.7**	**(2.3)**
Total number of man-days/shifts lost due to sick leave Implying the progressive and accumulative total of sick leave days over 12 month period	176,795	194,364	183,679	178,929	**2.65**	**5.8**

Note: This data includes both permanent and non-permanent (contract/temporary) workers

We are still concerned about the high level of sick leave taken (71.5%) which is indicative of an unhealthy workforce and we will be reviewing our Sick Leave Policy to ensure line management can better manage sick leave and related poor performance.

There was a slight improvement in the number of employees off sick every work day (771 compared to 791 in 2008/09 and 812 in 2007/08) and our challenge remains to reduce this figure to less than 600 a day by 2012.

Employee wellness

Physical wellness

Based on data collected since 2004, our wellness risk has been defined as three dimensional and this has been collated into what we call the 'Terrible Triangle' (see table on following page). Essentially this shows that we continue to have very poor chronic (high levels of diabetes, abnormal ranges of hypertension etc) stress and lifestyle profiles and we continue to address these issues through our Thuso Employee Wellness and Workplace Programme.

As part of the programme, employees and their families have an opportunity to participate in various health risk assessment tests eg. diabetes, cholesterol, blood pressure and body mass index (BMI). Some 4,989 employees participated in these screenings in the year under review.

Glucose profile

There was a very slight decline in the prevalence of diabetes type II (from 66% to 64.5%) and a decrease in the percentage of employees with low blood sugar (from 37% to 26.7%).

Cholesterol profile

There was a heartening decline in the high at risk category from 23% to 15%, although this did impact on the elevated or raised range which rose from 13% to 19.1%. Overall, however, we view the results as positive as more employees are being tested for their status and are also improving their dietary and physical activity habits.

Hypertension profile

While there was again an improvement in the profile from 51.3% to 46%, this positive tendency is insignificant in terms of the hypertension abnormalities that still remain above 45%. The high systolic range (heart subtraction) increased from 5% to 9.4% and the high diastolic (heart pumping) decreased from 24% to 12.4%. These levels are both high and this area remains a major wellness risk for us.

Body Mass Index

There were declines in the normal rate (28.7% versus 31% in 2008/09) and the overweight range (33% compared to 35%) with the obese and underweight categories remaining the same at 30% and 1% respectively.

We are seriously concerned that 23% of screened employees presented at least two chronic diseases, 4.3% had three and 0.8% had four. This will be a key focus area going forward.

Eye screening

In the year under review, 2,117 employees were screened for visual and related impairments with 207 requiring further interventions.

Mpho Mahlangu with her new prosthesis– 'making her more mobile and able to wear a shoe with the new prothesis'.

Executive wellness

In the year under review an executive wellness programme was initiated to address the needs and risks of Telkom executive leadership. The scope was to enhance physical wellbeing through various medical and health related assessments which included individual feedback provided by a professional executive wellness expert.

Opportunistic diseases (TB and swine flu)

We maintained our very low prevalence rate compared to the South African average with only 2.74% of our employees being treated for tuberculosis.

While swine flu was, potentially, a big risk for us, we are pleased to report that no workplace infection or contamination occurred and the 48 confirmed cases were traced back to family members, particularly school-going children.

Employee wellness – Executive wellness

"Terrible Triangle" – The paradigm we are in

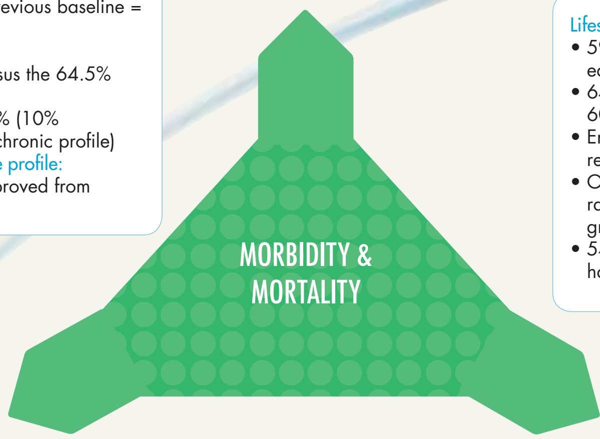
Cholesterol profile:
- Normal range is 64% (baseline was 63% – 08/09)
- At risk range is 19.1% (previous baseline = 13% – 08/09)

Diabetes profile:
- Normal range = 66% versus the 64.5% baseline (March 2008)
- At risk range levels = 6.9% (10% improvement in diabetes chronic profile)

Hypertension/blood pressure profile:
- The normal range has improved from 46% to 51.3%

Chronic profile (Physical wellness)

Lifestyle profile
- 59% employees indicated that they eat a healthy breakfast
- 64% employees are sedentary for 60% and longer of their working day
- Employees' biggest constraint for relaxation was finance on 52%
- Obesity range – 41% employees rated their weight as overweight to grossly obese
- 54% employees indicated that they have a monthly budget



Stress profile (Psycho-social wellness)

Lifestyle profile (Behaviour, attitudes, perception, worklife balance)

Stress profile
- 35% employees indicated that their stress levels are high to very high
- 35% employees experience conflict in their workplace

Psychological wellness

The Employee Wellness team has successfully transformed the psycho-socio wellness sphere from its traditional remedial and counselling focus to a more preventative approach with a definitive proactive and resilience competency-based focus and character.

Employee assistance programme

In the year under review, 1,161 employees were referred for psycho-socio counselling, a decrease of 4.7% on the previous year. Some 4,840 counselling sessions and 263 Group counselling sessions were held at a cost of R1.85 million.

There was a 15% decrease in crime and trauma related cases but a concerning 13.7% increase in family and relationship cases and a 6.3% growth in stress-related counselling.

Preventative interventions

A total of 26 workshops – consisting of nine stress management and emotional resilience workshops; 11 trauma and crises management interventions and six workshops regarding team development and cultural diversity were held. A further five psycho-socio wellness group interventions; 13 trauma and bereavement debriefings and four substance abuse awareness sessions were also conducted.

Socio-economic wellness

The Wellness sphere focuses primarily on employee behaviour patterns and associated lifestyle factors that either impact on or influence the wellness profile of the Group and its employees.

- Financial resilience: Some 1,537 garnishee orders totalling R8.02 million were instituted against more than 1,300 employees

The following table shows the diagnostic causal factors for the EAP referrals.

Diagnosis	06/07	07/08	08/09	09/10	Variance
Crisis and trauma (%)	41.7	41.3	40.5	35.2	15.1
Family relationships and divorce (%)	15.4	17.6	16.1	18.3	(13.7)
Stress related (%)	7.6	6.8	8	8.5	(6.3)
Not specified problems (%)	11.8	13.9	17.6	23.3	(32.4)

Hard facts about Lifestyle factors – (Sample Size 5219)

- Healthy diet: 36% employees indicated that they eat a healthy diet (15% female and 21% male).
- Chronic disease: 30% employees indicated that they suffer from a chronic disease and are on medication (13% females and 17% males).
- Alcohol consumption: 41% employees indicated that they do not consume alcohol (22% females and 19% males).
- Excessive drinking: 2% employees indicated that they drink more than 20 times a month.
- Never smoked: 57% employees indicated that they have never smoked – 30% female and 27% males.
- Excessive smoking: 10% employees indicated that they smoke more than 150 cigarettes a month (3% females & 7% male).
- Nutritional supplements: 46% employees take additional supplements to their diet. (22% female and 24% male).
- Healthy breakfast: 59% employees indicated that they eat a healthy breakfast most of the time (26% female and 33% male).
- Obesity range: 41% employees rated their weight between overweight to grossly obese (20% female and 21% male).
- Sedentary lifestyle: 64% of employees indicated that they are sedentary for 60% and longer of their working day. Of these, 31% are also not doing any formal exercise.
- Formal exercises: 55% employees indicated that they do frequent formal exercise (22% female and 33% male).
- Annual check-up: 34% employees indicated that they take annual check-ups in terms of cardio vascular and life support functions (14% female and 20% male).66% of the employees indicated that they do not take annual check-ups.
- Trauma suffered: 21% employees indicated that they suffered trauma in the last year (10% female and 11% male).
- Stress levels: 35% of the employees indicated that their stress levels are high to very high – 15% female and 20% male.
- Worklife balance: 69% of employees indicated that they are balancing their time between work, family and personal activities (28% female and 41% male).
- Conflict in the workplace: 35% employees experience conflict in their workplace (14% female and 17% male).
- Source of stress: The greatest source of stress and/or emotional imbalance came out as: (a) financial stress (53%); (b) job load stress (37%) and (c) domestic and family stress (26%).
- Plan for stress: 27% of employees indicated that they do have a plan to manage their stress, 28% do not have a plan and 45% 'sort of' have a plan to manage stress.
- Monthly budget: 54% employees indicated that they have a monthly budget (22% female and 32% male). 46% employees partially manage their finances via a budget.
- Long term financial planning: 58% employees indicated that they do long-term financial planning.
- Annual vacation: 45% employees indicated that they do take an annual budgeted vacation (17% female and 28% male).
- Hobby: 80% employees indicated that they do have a hobby (33% female and 47% male).
- Constraints for relaxation: The biggest constraint to recreation and relaxation was indicated as: (a) finance 52% (21% female and 31% male); (b) time 20% (9% female and 11% male); and family commitments 14% (7% for female and male).
- Safety at Home: On the question 'Do you feel safe at home' employees indicated: (a) 86% yes (36% female and 50% male); (b) 14% No (6% female and 8% male).

during the year. This is a decrease of approximately R1 million for the 2008/09 financial year. A major disappointment was the failure to appoint a Financial Resilience and Consultation service provider and this is a priority for the next financial year.

- Debt counselling: We engaged with five debt counselling companies to provide counselling services across the country and, while figures are difficult to track because of privacy requirements, we estimate that the average use was between 25% to 30%.
- Lifestyle: A Lifestyle Modification electronic survey on our SAP portal was sent to each of our 23,247 employees and 5,219 people responded. Some of the key findings are noted in the table on the left. These indicate an unhealthy workforce which is at the core of our poor chronic diseases profile and we will be focusing on these issues in 2010/11.

HIV/AIDS workplace programme

Our Thuso HIV/AIDS workplace programme continues to be recognised as a flagship initiative in this field. After winning the Global Business Coalition award for best voluntary counselling and testing and treatment programme in 2008 we elected not to participate in this award in the year under review but, instead, to introduce innovations that will create maximum benefits for the HIV positive population.

Our team continued to share best practices and protocols with other corporates, researchers and academics and we shared our experiences at two conferences attended by 25 sub-Saharan countries, where we provided delegates – at no cost – with all documentation and products.

- Voluntary counselling and testing (VCT): Since the inception of this programme in 2004, 27,452 tests have been conducted at all our sites including remote and rural areas. In the year under review, 4,422 employees were tested and, for the first time, 400 casual contract workers were tested, at no cost to their employers, as part of a UNAIDS funding project focusing on informal employment.
- Treatment protocols: One of the pillars of the Thuso HIV/AIDS strategy is to support and care for those who are infected or affected by the disease. The following table reflects the current infection status of our employees and family members:

Treatment aspect	Number of employees	%
HIV positive employees	828	100
HIV positive status via VCT	629	76
HIV positive status via self-identification	199	24
HIV employees registered on the Chronic Disease management (via call centre) (CDM)	551	66.6
HIV employees registered on other official programmes (medical aids; Governmental; NGOs; traditional healing, etc)	234	28.3
Employees not contactable in last three months	30	3.7
Individuals registered on CDM	551	100
Employees on CDM	484	87.8
Spouses/partners on CDM	64	11.6
Children on CDM	3	0.5

Safety, health and environment (continued)

- Prevention strategy: We have dispensed free condoms since 1996 and in the year under review, 994,190 condoms were dispensed and 115,900 expired condoms were disposed of.
- Peer education: Our Peer Education programme is now at a self-sustaining level in terms of awareness, education and support. Feedback during VCT rollouts showed that, in terms of basic knowledge about the disease, as well as attitudes and behaviour in terms of stigmatisation and discrimination, it has reached saturation level.
- Thuso 24/7 Call Centre: A total of 3,556 calls were routed via the centre which also introduced a new 'SMS Please Call Me' procedure for employees who, for whatever reason, could not reach the call centre.
- Prevalence and infection rates: In the year under review, 4,422 employees were tested of which 117 were HIV positive.
- KABP Study: The study was conducted by our external service provider amongst 287 employees (including 30 spouses/partners) who are registered on the Thuso HIV/AIDS workplace programme and the majority of responses were positive. However, the issue of 'fear to disclose my status' is still very prevalent – between 75% and 80% of all groups of responses; 97.5% of employees rated Thuso Programme as confidential.

Safety management

Safety management is a key part of our corporate governance and is monitored via our SHE Integrated Prevention Plan (SHE IPP), a management system that applies to all employees, contractors, products and services.

In the year under review, regrettably two employees lost their lives in work-related accidents and the Group extends its deepest condolences to their families.

Days lost as a result of SHE incidents declined from 12,003 in 2008/09 to 9,641 and the number of SHE incidents reported dropped from 961 to 854. Similarly the SHE incident frequency rate decreased from 3.15 to 2.97. Disappointingly, the disabling incident frequency rate rose by 11% (1.5 to 1.67) and this needs to managed in 2010/11. Stress-related incidents are the biggest contributor, as evidenced by the 421% increase in hijacking incidents compared to the previous year.

Occupational health

Occupational health and hygiene management practices are a key deliverable for us and in the year under review 2,110 medical screenings were conducted, an increase of 70.1% on the previous year. The increase is because of the shortening of screening cycles for technical officers working at heights from one to three a year and the introduction of medicals in contact centre environments where shift work is prevalent.

Environmental management

We are inordinately proud of the fact that environmental management in the Group has emerged from a philosophy of minimal conformance to a manifestation of ownership and accountability of our geographical footprint, coupled to sincere strategic mitigation principles associated with the impacts of those activities which may incur some form of adverse impact on the environment.

The green initiative

In line with our 'Renaissance' business model, the protocols of the Telkom Green Initiative (TGI) were formalised to ensure thorough environmental management across the Group.

The Green Building overview

The Green Building concept is an internationally accepted sustainable development initiative where new buildings are designed, or existing buildings converted, to use natural resources more efficiently. A key example of this is our new data centre in Bellville in the Cape (more details on this centre can be found on pages 71 and 88).

Projects and interventions

A number of projects were undertaken in the year under review. These were: waste management and recycling in our engineering yards; energy and water reduction projects; waste and recycling management on our Centurion campus; a methodology update of our environmental management audit and review; environmental biodiversity management; the preparation of ISO 14001 certification for our Hartebeeshoek earth satellite station in the Cradle of Humankind; and energy reduction initiatives in our customer service centres.

Resource consumption

We reported a pleasing decrease in water consumption during the reporting period from 1,577,764kL in 2008/09 to 1,526,158kL. On the downside, our energy consumption rose from 537,300MW hours in 2008/09 to 587,928MW hours, mainly as a result of an uninterrupted energy supply from the national grid compared to load shedding in the previous year where we provided self-generated diesel energy. As a result, our carbon dioxide emissions from consumed energy rose by the same amount.

Telkom network infrastructure passing through a wetland reserve

Biodiversity

On 9 June 2009 we were invited by BirdLife South Africa to participate in the World Migratory Bird day celebrations in Wakkerstroom, Mpumalanga where the theme was 'barriers to migration'. The Wakkerstroom wetlands are internationally recognised as a favourite destination for migratory birds and we were asked to research the impact of our network infrastructure encroaching on the reserves, and to provide feedback on possible means to mitigate the impact of probable mortalities.

There were concerns about the visibility by birds of our conductors against mountainous backgrounds, resulting in bird collisions, injuries and mortalities. We installed visual enhancing devices which have proven effective as collision deterrent controls in other areas. The areas where our infrastructure could cause problems have been monitored for 12 months and, to date, no further mortalities have been reported.

As reported in 2008/09, a 'Bat House' was erected on the exchange premises in a remote area of Mpumalanga where a colony of Angolan Free-Tailed bats had colonised the building. We had to delay the project until the juvenile bats could leave the roost to feed with their parents. When this happened, an excluder valve which enabled the bats to leave, but not return, was fitted and the 'house' put in place. We are delighted to report that the bats now occupy the 'house'.

Derek Doveton salutes the bat house which can contain a colony of between 400 and 500 Angolan Free-tailed bats

For further information on Telkom's SHE initiatives, interested parties can contact Stephanus Els on +27 12 311 4104.

The challenges ahead

Our priorities for the next financial year are:

- To reduce the number of sick leave days;
- To appoint an external financial resilience and advice company;
- To appoint additional Section 16.2 appointees to ensure Telkom meets the minimum requirements of the Occupational Health and Safety act;
- To produce a new Employee Wellness and SHE Governance policy;
- To ensure that current medical surveillance protocols cater for the associated risks that employees are exposed to when conducting their daily operations.
- While we have various initiatives in place to manage our carbon dioxide reduction targets, we need to look at putting dedicated resources in place to effectively manage the implementation and achievement of our key drivers in this area.

Green business is good business

In this era of global warming, how does a company curb its carbon footprint and, at the same time, expand its brand? In our case, we believe that green business is good business.

We started using solar energy more than 15 years ago to power rural telecommunications services for the 1994 elections and, a year later, for the 1995 Rugby World Cup. Since then we have been recognised as one of the largest users of solar power in southern Africa. Six years ago we began experimenting with wind turbines and today we are testing more powerful turbines in the Eastern Cape and Mpumalanga.

Using renewable energy for communication services in remote areas outside of the national electricity grid is not only a good technical solution but is also aimed at reducing our carbon footprint and, at the same time, doing business in a way that will not harm the environment.

For example, we have partnered with conservation groups to protect endangered birds that might come into contact with our infrastructure; we have distributed thousands of energy saving lightbulbs to our employees and we calculate our carbon footprint via the greenhouse gas emissions from our fleet of vehicles, electricity consumption and business travel. This information was voluntarily disclosed to the National Business Initiative's (NBI) Carbon Disclosure project in 2009.

Telkom acknowledges the significance of the impacts emanating from its network footprint and associated activities. Telkom considers all applicable aspects of legislation that relate to the principles of 'duty of care' towards the environment. The National Environmental Management Act, 1998 (107 of 1998) and associated Regulations are the governing legislative requirements to which we comply. Environmental management processes and procedures are designed to support the implementation of the ACT, Regulations and associated local Government bylaws.

Safety, health and environment (continued)

In November 2009, we stepped boldly into an ozone-friendlier future when we opened our newest and greenest Data Centre in Bellville, Cape Town. This is our Cybernest business unit's flagship combining exceptional data centre performance with green IT at its best. At the time, Cybernest acting managing director, Pierre Marais said: "We believe this centre equals the world's best in capacity, availability and energy efficiency". Four months later his world-best claim was vindicated when the centre was voted as one of three finalists in the category 'Most Innovative Data Centre Project' at the Cisco Networkers Awards held in Bahrain in March 2010.

In designing the centre we followed the recommendations of the Green Grid, a global consortium of IT companies promoting data centre efficiency. As a result, the centre complies with the Montreal protocol and, like its counterparts in the United States and Europe, it uses the latest energy efficient technologies such as free air cooling, virtualisation and hot aisle/cold aisle containment. Our calculations predict that the centre expects to achieve an overall energy saving of 34% a year through its green features.

The opening aligned the centre's energy credentials with a carbon neutral launch. With a guest list of 200 customers, many from out of town, the carbon neutral preparations took into account a number of potential carbon producing factors such as air travel, road transport, catering, refrigeration, electricity, media and marketing material and the waste that would have to be disposed of after the function. Using energy efficiency specialists, we cut out as much carbon creation as possible. For example, the invitations were electronic; we sourced locally grown or organic food; we arranged shuttle buses from the airport and the performers were dressed in recycled clothing. The caterers were asked to commit to recycling their waste and electricity meters were installed to give minute-by-minute power consumption readings. This information was displayed on a screen so the guests could monitor the energy used and the carbons emitted.

After the launch, Energy Unlimited calculated the final carbon emissions at 43 tons. We countered that by buying and planting the requisite number of trees.

The data centre fact sheet

The free cooling system is designed to, on a full data centre load, save us on an annual basis:

- 2,687 tons of coal;
- 6,910,121 litres of water (that's 173 swimming pools);
- 777,590kg of ash (773 tons);
- 1,103.7kg of particle emissions (1,103 tons);
- 4,798,695kg of carbon dioxide (4,798.7 tons);
- 41,700kg of sulphur dioxide (41.7 tons); and
- 21,066kg of nitrous oxide (21 tons).

The Bellville 2 data centre now sports the following energy saving (green) components

- Hot and cold aisle floor layout;
- ASHRAE allowable environmental implementation (wider range of temperature and humidity allowing for reduced power);
- Standard uniform racks with the potential of cold aisle containment (not implemented yet);
- 4 free air cooling modules;
- Modular cooling design with very short pipe lengths;
- Energy efficient chillers;
- Energy efficient Flywheel UPS located very close to load;
- 124 power meters to monitor (manage) power consumption on various components;
- Power monitoring per rack;
- Power monitoring and management software;
- Occupancy censor lighting (lights out data centre);
- Energy (saving) efficient lighting throughout;
- Low pressure fire extinguisher FM200 gas installation;
- Thermally insulated cladding around the building; and
- Cisco Nexus installation with a Unified Fabric topology.

Waste Management

Indicator	Quantity/Unit	
Waste Stream	2008/2009	2009/2010
Paper for recycling	181 Metric Ton	172 Metric Ton
Copper	1301 Metric Ton	2210 Metric Ton
Optic Fibre	282 Metric Ton	234 Metric Ton
Batteries	349 Metric Ton	344 Metric Ton

Telkom has ensured alignment of its waste stream management with the recently revised **National Environmental Management: Waste Act, 2008).** Compliance with both the National Waste Act and Local municipal bylaws are reviewed periodically to ensure safe disposal conformance of all waste streams. Telkom will focus extensively on the management of electronic waste going forward with specific emphasis on the 'cradle to grave' concept of Responsible Environmental Management.

South Africa is a signatory of the Kyoto Protocol and the UN Global Compact. Individually we strive to comply with the principles of both these policies.

Corporate social investment

THE CORE OF OUR APPROACH IS TO DEMYSTIFY MATHS, SCIENCE AND TECHNOLOGY

The Telkom Foundation, which runs and funds all our corporate social investment initiatives, continues to be recognised by other corporates and non-government organisations (NGOs) as one of South Africa's leading CSI investors.

As a leading telecommunications group, many of our CSI projects are directed at mobile libraries, science laboratories and ICT projects which are managed by the Molteno Institute of Language and Literacy.

The mobile libraries, referred to as 'Willie Wagons', provide books to learners from Grade R to 7 and are geared towards creating a reading culture amongst these learners.

The laboratories provide training courses for teachers in maths, physical science, technology and entrepreneurship.

The ICT schools project is an integrated socio-economic development programme designed to address escalating poverty levels and under development. Its primary focus is on quality improvement in primary and secondary education and providing better access to information and communication technology to schools.

In the year under review we funded:

- 150 ICT schools in the Western Cape;
- 100 schools with mobile libraries and science laboratories; and
- 187 Beacon of Hope projects.

We also provide support to the National and Provincial Departments of Education through interventions with teachers, learners, schools curricula, tours, knowledge, skills and other educational means. The core of our approach is to demystify maths, science and technology to the core communities we support, the rural and semi-rural communities and in particular, disadvantaged communities.

Overall, our goal is to systematically help the Department of Education to convert the schools we support into e-Education resource centres. In addition to the three projects listed above, as part of our e-Education project, we supplied 1,000 schools with one computer each; supported 100 Supercentre schools; 102 dedicated schools (Dinaledi); 157 Thintana schools; 30 special schools; 30 ad-hoc schools and 31 ICT Saturday schools.

The Beacon of Hope programme is perhaps the Telkom Foundation's most powerful opportunity to change and shape individual lives.

Launched in 2006, the initiative which is run jointly with our Centre of Learning, takes high potential learners from disadvantaged communities across the country and places them in some of South Africa's leading private boarding schools.

Currently there are 198 learners participating and our Foundation pays for their tuition, boarding fees, uniforms, books, stationery, sporting equipment and pocket money. The project continues until the learners complete Grade 12. In the year under review, 10 learners from nine disadvantaged primary schools in nine provinces participated in the project.

Many Beacon of Hope learners have achieved very good results thanks in no small measure to the fact that many of the participating schools have gone the extra mile in providing extra lessons and afternoon classes to help the learners meet the required standards, especially in English.

Some of the shining stars unearthed by the programme are Zimasa Malunga from Langa who is studying at Wynberg Boys High School in Cape Town; Busisiwe Cingo from East London who is at St Patricks College in KwaZulu-Natal; and Tshidiso Mafereka and Charles Rakiavoane from Winburg who are based at the New Horizons College in Harrismith, Free State.

In the year under review. The Foundation's CEO, Reabetsoe Motsepe, identified two potential leaders in the form of Nthabiseng Ntshihlele from the Kabelo Primary School and Tsholofelo 'Shorty' Motshekwane from the Segale Primary School. She will be following their progress with great interest.

Other projects supported by the Foundation are:

- Childline (a toll-free telephone service);
- LifeLine (a toll-free telephone service);
- Ucingo (weaving arts and crafts projects using our redundant copper wire);
- ICT empowered communities (Bergville, KwaMncane, Inanda and Emabhuyeni in KwaZulu-Natal and Elukwatini in Mpumalanga);
- Adopt-a project (an initiative where senior management choose a project in their own communities); and
- Giving from the heart (a project where employees get involved in charitable initiatives in their communities by contributing their time, skills and money).

The year ahead

In the year under review we established the Telkom Foundation Economic Development portfolio which focuses on the transformation of disadvantaged communities through skills development, the promotion of employability and the alleviation of poverty through a range of funded projects.

As community development is not one of our core competencies we are working with civil society to develop a systematic approach that defines and meets real community needs. To date we have established the following projects: Internet Café; Right Entry and a Small Business development centre.

We are currently identifying and evaluating four projects for the 2010/11 financial year. These are:

- The Calker Organisation, a Section 21 organisation that promotes skills development through empowering disadvantaged communities;
- Growing Community Initiative, a project which trains unemployed youths to increase their employment opportunities;
- African Spirit, a community-based crafting NGO in Estcourt, KwaZulu-Natal that, over the past three years, has successfully trained more than 650 people; and
- Skills development through FET colleges, a project initiated by us that helps students access skills development training.

Sponsorships

Telkom's involvement as a national supporter in provisioning the backbone ICT infrastructure that delivered the 2010 FIFA World Cup™ to a global audience, was reinforced by mounting football sculptures onto the Lukasrand (Pretoria) and Johannesburg towers. These giant footballs reinforced Telkom's sponsorship of the first World Cup on African soil, and highlighted the Group's determination to make a decisive contribution to the success of the tournament.

Telkom also continued to support local soccer by sponsoring two major Premier Soccer League (PSL) events, the Telkom Charity Cup and the Telkom Knockout. Then Group's support for the Charity Cup – a one-day event that raises much-needed funds for charity organisations – stretches across a decade. The 2009 event raised R3.6 million. The Group has sponsored the Telkom Knockout since 2006. The tournament takes place over 12 weeks and involves all 16 PSL teams. Because of its unique nature, the tournament has been growing in popularity.

The Group is still the country's only serious corporate sponsor of swimming. This has resulted in the spontaneous recognition factor of Telkom as a sponsor being exceptionally high. Telkom's support for the sport is channelled through Swimming South Africa, whose Learn to Swim programme has benefited thousands.

Global reporting initiative (GRI) content index

Telkom has opted for an incremental adoption of the guidelines to the GRI index, the full adoption will include a quality assurance and compliance audit report. In many cases, Telkom's internal reporting frameworks pre-date external frameworks, hence this is presented as a navigation aid as opposed to a "tick-box" compliance exercise.

Item		Comment and reference
Vision and strategy		
1.1	Statement of the organisation's vision and strategy regarding its contribution to sustainable development.	See Telkom's website: www.telkom.co.za/ir
1.2	Statement from CEO (or equivalent senior manager) describing key elements of the report.	Chief Executive Officer's review
Profile		
Organisational profile		
2.1	Name of reporting organisation.	Telkom SA Limited
2.2	Major products and/or services including brands if appropriate.	Operational review Further details of products and service can be accessed on the website www.telkom.co.za
2.3	Operational structure of the organisation.	Group structure
2.4	Description of major divisions, operating companies, subsidiaries.	Group structure
2.5	Countries in which the organisation's operations are located.	Enterprise risk management
2.6	Nature of ownership; legal form.	Group structure
2.7	Nature of markets served.	The regulatory and competitive landscape
Report scope		
2.10	Contact person(s) for the report, including e-mail and web addresses.	Administration page and www.telkom.co.za/ir
2.11	Reporting period for information provided.	Year ended 31 March 2010
2.12	Date of most recent previous report.	Year ended 31 March 2009
Report profile		
2.17	Decisions not to apply GRI principles or protocols.	Sustainability review
2.18	Criteria/definitions used in any accounting for economic environment.	Notes to the consolidated annual financial statements
2.19	Significant changes from previous years in the measurement methods.	Notes to the consolidated annual financial statements
2.22	Means by which report users can obtain additional information and reports about economic, environmental and social aspects of the organisation's activities, including facility-specific information.	See Telkom's website: www.telkom.co.za/ir
Governance structure and management systems		
Structure and governance		
3.1	Governance structure, including major Board committees.	Corporate governance report
3.2	Percentage of the Board of directors that are independent, non-executive directors.	Corporate governance report
3.3	Board-level processes for overseeing economic, environmental and social risks and opportunities.	Corporate governance report
3.4	Linkage between executive compensation and achievement of goals.	Human capital management report
3.5	Organisational structure and key responsibilities.	Chief officers and management team
3.6	Mission and values statements and codes of conduct.	See Telkom's website: www.telkom.co.za/ir
3.7	Mechanisms for shareholders to provide recommendations to the Board of directors.	Company Secretary (see contact details on ibc;) IR road-shows; AGM and the IR website www.telkom.co.za/ir

Item		Comment and reference
Stakeholder engagement		
3.8	Major stakeholders.	Sustainability review
3.9	Approaches to stakeholder consultation.	Sustainability review
3.10	Type of information generated by stakeholder consultations.	Sustainability review
3.11	Use of information resulting from stakeholder engagements.	Sustainability review
Economic performance indicators		
EC1	Net sales.	Consolidated statement of comprehensive income
EC2	Geographic breakdown of markets.	Notes to the consolidated annual financial statements
EC3	Cost of all goods, material and services purchased.	Consolidated statement of comprehensive income
EC5	Total payroll benefits.	Consolidated statement of comprehensive income
EC6	Distributions to providers of capital.	Consolidated statement of changes in equity
EC7	Increase/decrease in retained earnings at end of period.	Consolidated statement of changes in equity
EC8	Total sum of taxes of all types paid broken down by country.	Notes to the consolidated annual financial statements
EC10	Donations to community, civil society and other groups.	Corporate social investment report
Environmental performance indicators		
Materials		
EN1	Total material use other than water, by type (report in tonnes, kilograms or volume). Provide definitions used for types of materials.	Safety, health and environment report
EN2	Percentage of materials used that are waste (processed or unprocessed) from sources external to the reporting organisation.	Safety, health and environment report
EN5	Total water use.	Safety, health and environment report
EN6	Land owned, leased, or managed in biodiversity-rich habitats	Safety, health and environment report
EN7	Description of major impacts on biodiversity, associated with the organisation's activities and/or products and services in terrestrial, freshwater and marine environments.	Safety, health and environment report
Social performance indicators		
Labour practices and decent work		
LA1	Breakdown of workforce.	Human capital management report
LA2	Percentage of employees represented by independentHuman capital management report trade unions.	Human capital management report
LA3	Occupational accidents and diseases.	Safety, health and environment report
LA4	Standard injury, lost day and absentee rates and number of work-related fatalities.	Safety, health and environment report
LA5	Description of policies or programmes on HIV/AIDS.	Safety, health and environment report
LA6	Average hours of training per year per employee by category of employee.	Human capital management report
LA7	Equal opportunity policies or programmes.	Human capital management report
LA8	Composition of senior management and corporate Chief officers and management team governance bodies.	Corporate governance report

Five year operational review

for the years ended 31 March

	2006	2007	2008	2009	**2010**	CAGR (%)
Telkom South Africa						
ADSL subscribers[1]	143,509	255,633	412,190	548,015	**647,462**	45.7
Calling plan subscribers	62,803	272,071	464,038	590,590	**715,221**	83.7
Closer subscribers	62,803	266,300	451,122	575,812	**694,348**	82.3
Supreme call subscribers	–	5,771	12,916	14,778	**20,873**	53.5
W-CDMA subscribers	–	–	–	5,253	**16,299**	210.3
WiMAX subscribers	–	–	500	2,615	**2,979**	144.1
Do Broadband subscribers	–	–	119,258	188,540	**236,512**	40.8
Fixed access lines ('000)[2]	4,708	4,642	4,533	4,451	**4,273**	(2.4)
Post-paid – PSTN	2,996	2,971	2,893	2,769	**2,625**	(3.3)
Post-paid – ISDN channels	693	718	754	781	**784**	3.1
Prepaid	854	795	743	766	**744**	(3.4)
Payphones	165	158	143	135	**120**	(7.7)
Fixed-line penetration rate (%)	10.0	9.8	9.5	9.1	**8.7**	(3.4)
Revenue per fixed access line (ZAR)	5,304	5,275	5,250	5,349	**5,345**	0.2
Total fixed-line traffic (millions of minutes)	31,015	29,323	26,926	24,869	**23,082**	(7.1)
Local	18,253	14,764	11,317	8,822	**6,963**	(21.4)
Long distance	4,446	4,224	3,870	3,631	**3,238**	(7.6)
Fixed-to-mobile	4,064	4,103	4,169	4,113	**3,646**	(2.7)
Fixed-to-fixed	–	–	–	13	**47**	261.5
International outgoing	515	558	635	622	**595**	3.7
International VoIP	83	38	43	34	**60**	(7.8)
Subscription-based calling plans	–	1,896	2,997	3,546	**3,805**	26.1
Interconnection	3,654	3,740	3,895	4,088	**4,728**	6.7
Domestic mobile interconnection	2,299	2,419	2,502	2,484	**2,319**	0.2
Domestic fixed interconnection	–	–	113	415	**736**	155.2
International interconnection	1,355	1,321	1,280	1,189	**1,673**	5.4
Managed data network sites	16,887	21,879	25,112	29,979	**33,226**	18.4
Internet all access subscribers[3]	282,927	302,593	358,066	423,196	**511,535**	16.0
Telkom Company employees	25,575	25,864	24,879	23,520	**23,247**	(2.4)
Fixed access lines per fixed-line employee[4]	184	180	182	189	**184**	0.0

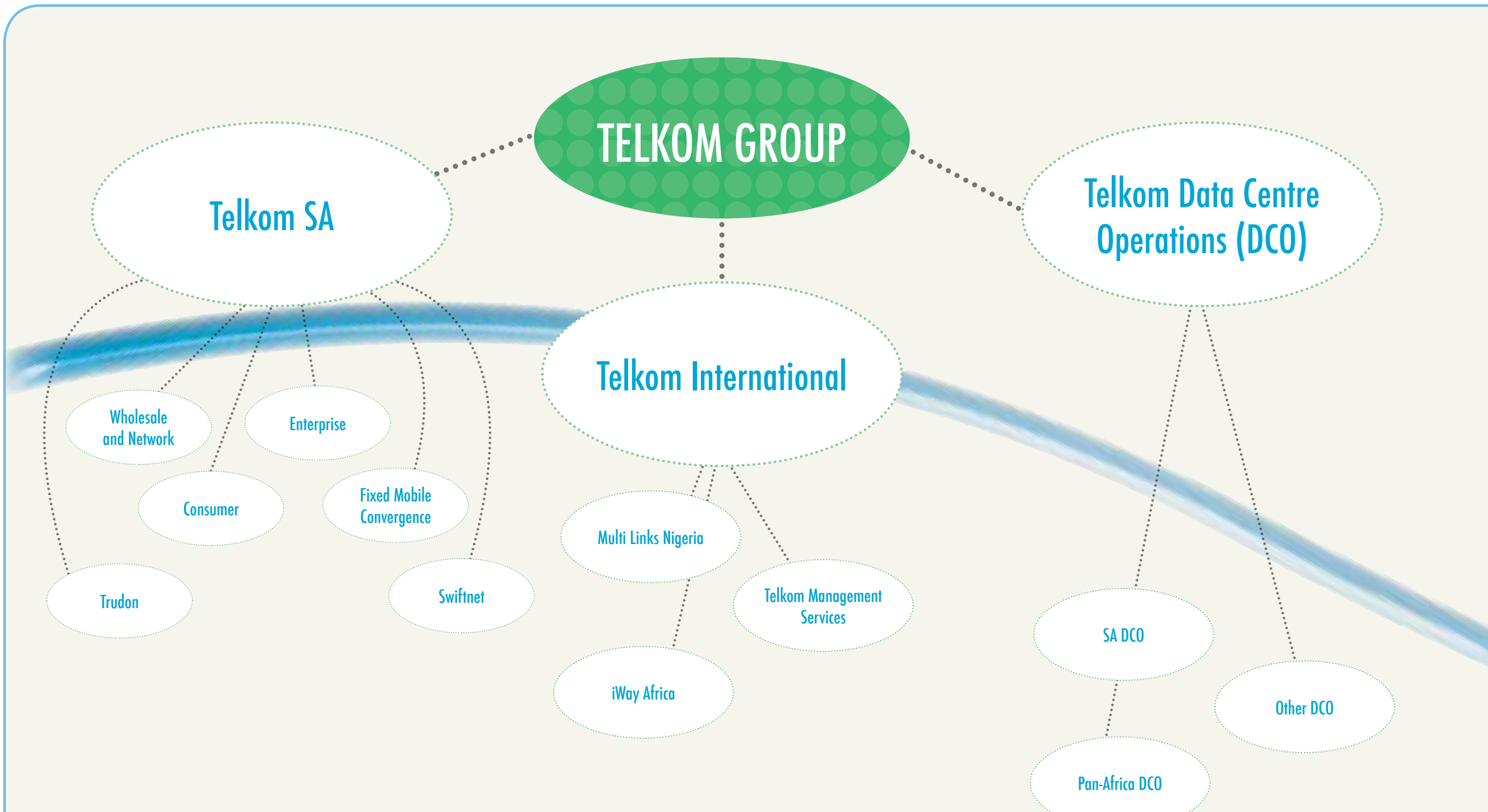
(1) Excludes Telkom internal lines and includes business, consumer, corporate, government and wholesale customers.
(2) Excludes Telkom internal lines
(3) Includes Telkom Internet ADSL, ISDN, WiMAX and dial-up subscribers.
(4) Based on number of Telkom Company employees, excluding subsidiaries.

	2006	2007	2008	2009	**2010**	CAGR (%)
Multi-Links						
Active subscribers	–	185,619	813,392	1,866,196	**2,256,835**	129.9
CDMA	–	–	–	1,863,131	**2,210,925**	18.7
EVDO	–	–	–	2,699	**45,340**	1,579.9
Data leased lines	–	–	–	366	**570**	55.7
Total traffic (millions of minutes)	–	–	–	1,780	**1,125**	(36.8)
Estimated CDMA market share (%)	–	–	–	33	**26**	(21.3)
Market penetration (%)						
GSM (%)	–	–	–	90.0	**88.0**	(2.2)
CDMA (%)	–	–	–	7.2	**10.0**	38.9
Fixed (%)	–	–	–	2.4	**2.0**	(16.7)
Employees	–	–	782	1,124	**767**	(1.0)
Customer per employee	–	–	1,040	1,660	**2,942**	33.1
Other International						
Africa Online subscribers[5]	–	n/a	17,252	18,441	15,607	(4.9)
Africa Online employees[5]	–	317	379	313	237	(9.2)
MWEB Africa subscribers	–	–	–	–	19,777	n/a
MWEB Africa employees	–	–	–	–	325	n/a

(5) Excluding UUNet joint venture partner's subscribers and employees in Kenya.

	2006	2007	2008	2009	2010	CAGR (%)
Other South African						
Trudon employees	514	549	610	531	528	0.7
Swiftnet employees	67	76	70	93	135	19.1

Operational review



Increasingly, data is becoming a large contributor to all telecommunications operators

During the year under review, the Telkom Group set up three business units to enable us to better manage the competitive environment we operate in, to identify costs within each segment which can be addressed and to introduce full profit and loss accountability in each business unit. The units are:

- **Telkom South Africa**
- **Telkom International**
- **Telkom Data Centre Operations (Cybernest)**

This is the first report on how the units performed.

Telkom South Africa

The business unit has four divisions – Retail Consumer; Retail Enterprise; Wholesale and Networks and Telkom Mobile.

Retail Consumer

The year under review was, yet again, a challenging one as consumers were battered on all fronts by the tough economic conditions and Telkom experienced the continuous shift to mobile services. As a result, this put increased pressure on our traditional fixed-line revenues, resulting in a drop in volumes for local and long distance; fixed-to-mobile and international outgoing traffic.

We achieved a 20.6% growth in the number of subscribers using our Closer calling plan packages. These consist of monthly subscriptions for access line rental, value-added services and free or discounted call rates. We have seen an increase in customer satisfaction and perception of Telkom as a whole amongst customers subscribing to Closer. Furthermore, the Closer calling plans have proven to increase customer retention and loyalty.

Local call usage continues to decline, mainly as a result of mobile substitution, broadband cannibalisation of dial-up and migration to calling plans. This is in line with the group's strategy to increase annuity revenue and broadband penetration. We continue to communicate with and educate customers on the quality and affordability of landline rates.

Our broadband offering through the ADSL service, with its higher bandwidth and other value-added services, achieved a 25.4% growth in the number of customers subscribing to our broadband data services. This growth was reflected in a positive contribution to operating revenues.

In the year under review the ADSL subscribers grew from 548,015 to 647,462 which has resulted in our broadband/line penetration growing from 15% to 19%. The consumer segment represents more than 60% of broadband connections.

Operational review (continued)

Telkom's Broadband strategy is to enhance customer value. During our 2009/10 price filling we did not increase our Broadband prices; however more value was added to two of our Broadband packages. This was achieved by increasing the allowable data cap to 3GB from 2GB in the case of Do Broadband level 2 and from 3GB to 5GB in the case of Do Broadband level 3. This strategy has resulted in a increased demand for the higher end Broadband packages.

Telkom Internet has also enhanced electronic messaging services by increasing the mailbox storage size to 3GB as well as introducing an online e-mail interface making it possible for customers to read their e-mail anywhere around the world. We also launched PC Assist in an attempt to make desktop support simple and easy.

To drive costs down, significant improvements were obtained by streamlining the ADSL modem return process. This was achieved by improving the pre-screening process through our call centres and improvements in the return process in total. Savings of more than R16 million were achieved.

Our Telkom Direct Store (TDS) retail channel continued to grow with increased customer traffic across the board. Going forward we will intensify our focus on this channel.

In line with our internal Project Renaissance to realign and to grow client value and profitability, we launched a customer portfolio management project which focuses on improving customer service through the development of specialised information on customer behaviour.

From a retail credit management perspective (consumer and enterprise) our performance was good considering the prevailing market conditions. Through vigilant credit vetting and thorough collection process we achieved a bad debt figure of less than 1% of revenue while our performance on trade debtors remained well below 30 days. The continuous review of our approach remains a priority to ensure we don't hamper business opportunities in support of achieving Telkom objectives, yet due consideration is given to limiting losses and increasing cash flow.

Retail Enterprise

The ICT industry is in the midst of a radical transformation. New licences, new technologies, new competitors, new challenges and opportunities arise at an increasing pace. We are facing the challenges of conversion of existing licences to individual electronic communication services and electronic network service licences, and the opportunities of competing in the Data Centre and fixed-mobile converged environment. The unbundling of Telkom's stake in Vodacom gave us the opportunity to build out our own mobile capability to offset the income from the Vodacom stake.

Retail Enterprise's strategy to defend traditional markets and grow new markets in fixed-mobile, Broadband and converged services, is positioning us well to be a leading South African based international ICT service group.

Our new segmentation approach splits the Enterprise market into three main segments, each with two sub-segments. These are:

- Small and Medium Business Services;
- Large Business and Government Business; and
- Corporate and Global customers.

This new segmentation is based on a Customer Portfolio Management (CPM) approach which is enhancing product and service take up in each segment through the focussed combination of unique product sets which add value to the specifically targeted customers.

In the year under review we signed up R3.7 billion in network services; R410 million in e-business and R2.2 billion in discount plan long-term contracts. These deals generated new revenue of R985 million (network) and R118 million (e-business). We also sold 1,253 ISDN PRI 323 Spacestream; 39,156 ADSL; 18,502 BRI and 139,687 analogue lines. PBX sales included 1,404 outright sales and 7,424 rental deals. We invested R150 million in LAN/WAN CPE and Hosted IP Contact Centre solution development. Additionally, we rolled out our MetroLAN capability to the seven major metropolitan areas; WAN Optimisation solutions that enhanced wide area network performance for our customers and additional VPNS enhancements to meet customer needs.

New product developments saw us entering the managed next generation voice services space with our Hosted IP Contact Centre solution, where the traditional premised based contact centre management system is hosted in Telkom's network, from where we provide service to multiple customers and contact centres across the country. Additionally, we also introduced National MetroLAN services to our Enterprise customers.

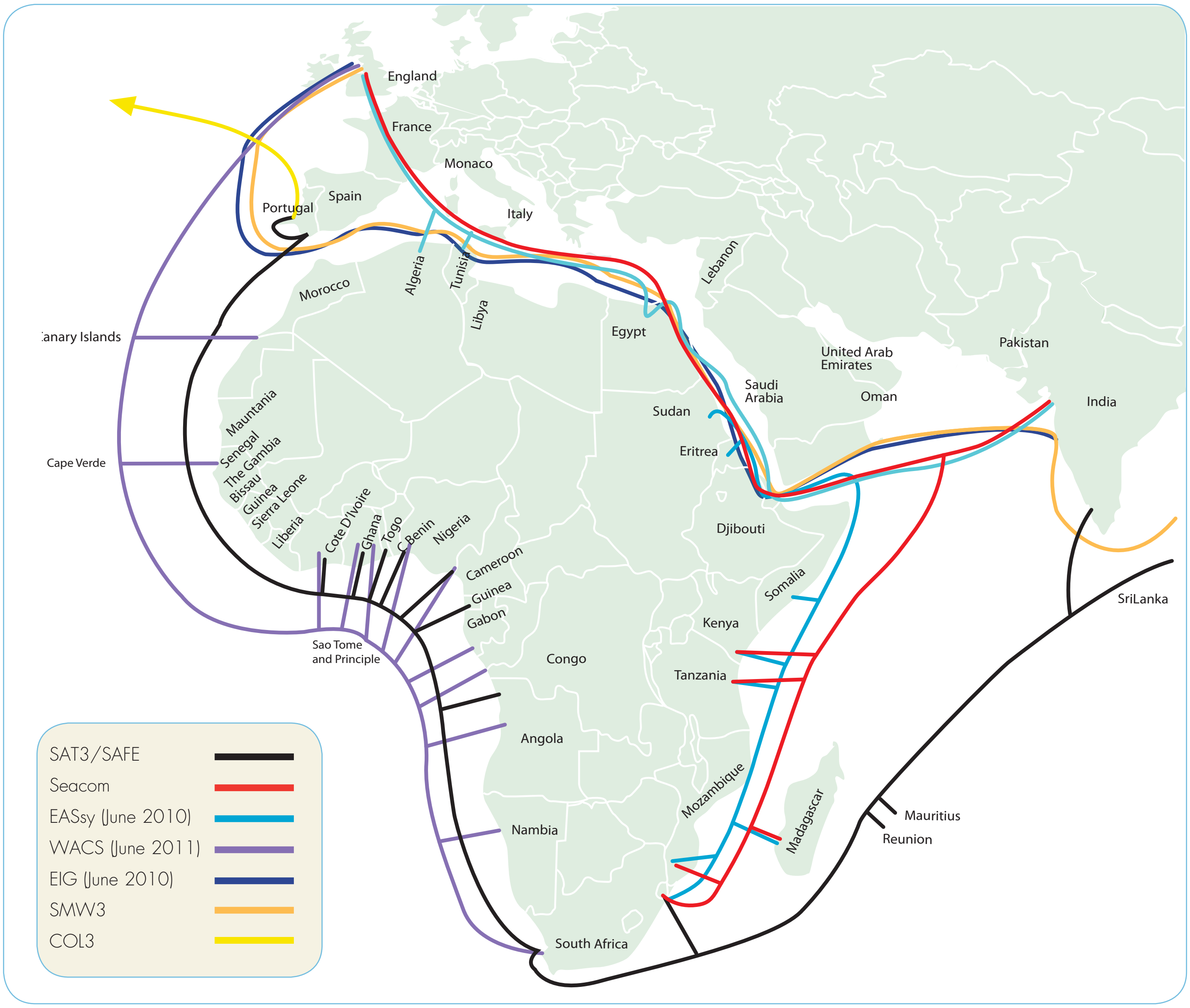
VPN Supreme was enhanced with additional access options such as Metro Ethernet and GPRS/3G. Supremecall also saw some additional options added and customers with a usage profile of up to R300,000 per month can now benefit from the price plan. As a result of the Mobile Termination Rate reduction from 1 March 2010, we took the decision to pass the full benefit through to our customers by reducing our retail rate by the full 36 cents per minute reduction. This allows us to be much more competitive against alternative fixed to mobile offers in the market.

The Heartbeat results for Enterprise were encouraging with 72% of staff being fully engaged, demonstrating that the sales staff are the most committed staff in Telkom, with the utmost faith in the products, services and the value they can offer to our customers.

Plans for the new year take cognisance of a declining voice revenue trend caused by substitution, arbitrage, VoIP and price competition, with a series of actions to mitigate these pressures. In contrast, data revenues are growing significantly through Broadband, VPN and Bandwidth, and this growth is in spite of ongoing price reductions.

Going forward, key focus areas include: growing annuity revenue; defending voice through price plans; winning back fixed-mobile revenue that we lost to Least Cost Router service providers; improving customer satisfaction; growing Broadband; more focus on the SME market; defending our PBX market position; sustaining growth in the VPN market and new product development. As part of our business plan we will make more effective use of our partnerships to improve time to market for new products, better align our operational resources to focus on DSL and access

Telkom core global submarine cable network (current and future)



lines; single line portability and planned price adjustments for Diginet; fixed-mobile calls and line rental .

New products to support these goals include VPN Clear (with customer managed routers) and additional access options for VPN Supreme; improving the value proposition for VPN Supreme and making it better suited for VoIP; WAN portfolio enhancements that include Inter Metro and International MetroLAN solutions and Next Generation leased lines (up to 2Mbps). We will also enhance our Hosted IP Contact Centre services; unified communications solutions using partners; PBX enhancements (wireless and campus); voice win back campaigns and expanded global VPN footprint following the AT & T agreement.

But carrying on doing more of the same business will not create the future we desire. Therefore the Retail Enterprise division has embarked on an extensive revitalisation programme which is designed to improve the heart of our business operations and navigate the journey to the future.

Achieving the business plan targets is uppermost in priorities for all Enterprise staff and all eyes are focussed on achieving and exceeding these goals. To support this commitment, projects have been initiated in an action framework of key strategic interventions and supporting tactical initiatives in four critical areas, namely: product leadership, sales and marketing excellence, flawless service and leadership organisational effectiveness.

However, ultimately the Enterprise division's goal is to create an exciting future by innovative deployment of our unique competitive advantage through having fixed-line, mobile and data capabilities.

Wholesale and Networks

The year under review was challenging, but exciting. Revenue growth was muted, mainly because many of our traditional customers in the wholesale sector can provide and build their own networks. As a result, we have continued a complete realignment of our product and services suite to ensure our offerings and value propositions are competitive.

Operational review (continued)

In terms of compliance, Geographic Number Portability (GNP) was a key focus area for us. GNP enables us, and other operators, to offer retail customers the opportunity to change from one fixed-line operator to another, without changing their telephone numbers.

Following the granting of new licences by ICASA from January 2009 and onwards, we anticipate a potential increase in the number of interconnection agreements concluded by us in the future. Our current interconnection offerings are: call origination; call termination; (calls from other licensed operators, mobile communication operators and international carriers; transit service (following traffic from an operator destined for another via our network); premium-rated services and number portability and onward routing.

On the cellular operator fixed links and Megalines front, we recorded growth of 8.1% in mobile leased lines. Going forward, we expect that if the option of other operators being able to self-provide increases, growth will slow down. To combat this, a number of initiatives have been put in place to enable us to compete more effectively in this evolving and competitive market.

We achieved an 8.8% growth in revenue for our Diginet/Diginet Plus products and we are building on this base to better align our product value in the wholesale market.

As a result of rebalancing our ATM Express tariff on 1 February 2009, we achieved a very pleasing 37% year-on-year growth for this product.

Network Evolution and Technology Strategy

Our technology strategy remains intact and aims to evolve to an affordable Next Generation Network (NGN) based on open standards and a fully IP-enabled communications-centric convergent network. The Next Generation Network architecture will deliver narrow band, Broadband and wideband connectivity over wireline and wireless access technologies. These access technologies are linked to a multi-service edge aggregation network and a core transport network based on Automatic Switch Transport Network (ASTN) and Dense Wave Division Multiplexing (DWDM) transport networks.

The Next Generation services will be supported by a single core network based on ETSI TISPAN 3GPP compliant core, supported by IP Multimedia System (IMS) /Session Initiation Protocol (SIP)/Service Delivery Platform (SDP).

IP-based Open Services Platform introduced and customers migrated

Our Intelligent Network (IN) platforms have reached end of life and we have deployed a new Open Services Platform (OSP). This is an IP-based system which can rapidly develop and deploy Next Generation Services and provide convergence and service availability across multiple networks.

Following the deployment of the OSP, we did an initial migration of the Pretoria PrepaidFone customer base to the new OSP platform. The platform has proved to be truly resilient, living up to its carrier grade promises. The remainder of the PrepaidFone customers were subsequently successfully migrated and we can now offer our customers in this sector an advanced feature set and real value added services, thus reducing churn and opening up the possibility of new revenue opportunities.

Public payphones

In spite of the increase in the number of mobile phones, there is still a good demand for our public payphones, particularly for international destinations, with Zimbabwe being the highest country called.

Our payphone base underwent a major transformation with the base being rationalised. However, the project focused on providing payphones in under serviced areas, community centres, schools, hospitals etc. In terms of our obligations to ICASA we are required to have a service availability of 95% for card phones and 90% for coin phones. Currently we are maintaining 98% for the card phones and 95% for the coin phones.

International Networks

Together with our other S3WS partners (we are the single largest S3WS owner), we contracted a full upgrade of SAT3/WASC and SAFE undersea cables in May 2008, which increased the cables' capacity to the limit of their design capacity, which came on line in October 2009. The upgrade, which increased SAT3/WASC capacity to more than 300Gbs and SAFEs to 400Gbs, ensured there was more than sufficient fibre capacity to route the 2010 FIFA World Cup™ services to the rest of the world.

The Eastern African Submarine Cable System (EASSY) which provides connectivity from Mtunzini in South Africa to Djibouti in Sudan, physically landed in the country in early February 2010. The 10,500km cable has a design capacity of 1.4 Tbs, It is anticipated that the cable will be fully operational by August 2010.

The Europe India Gateway (EIG) project route between London and India, via Portugal, the Middle East and North East Africa, will, when operational by January 2011, connect EASSY from Djibouti to France and London. The 18,000km long cable with a design capacity of 3.84 Tbs, will provide improved cost connectivity for SAT3/WASC from Portugal to London.

The contracts for the West Africa Cable System (WACS) were concluded in April 2009 and the targeted delivery date is mid 2011. We will land the cable at a location in the western Cape, thus giving South Africa its third diverse international fibre gateway. With a design capacity of at least 5.12 Tbs, the WACS cable will be the largest cable system in Africa. The 16,500km long cable will serve the bulk of international capacity requirements for the southern and West Africa regions for the next decade.

We participated in an upgrade of the 10,000km Columbus 3 cable in 2009 which substantially increased the system's capacity. Routed between Portugal and the USA, the system, in conjunction with SAT3/WACS, is the shortest route between South Africa and the USA.

We more than doubled the capacity of the 39,000km long SEA-ME-WE3 (SMW3) cable in 2009. The cable, which provides a key restoration route for the SAT3/WACS and SAFE cable systems, connects to 35 countries in western Europe, the Middle East and Asia.

Our Global Capacity Business was key to the success of the 2010 FIFA World Cup™ as we arranged and contracted all foreign connectivity (international private leased circuits) via submarine cable to enable the international broadcasters to take the 2010 FIFA World Cup™ feeds to the rest of the world.

A national Caching Solution was successfully implemented in the Telkom IP Network. This consists of two caching server POPs installed in Rosebank and Bellville in a sharing configuration. These cache content downloaded by Telkom SAIX users from the internet (videos, pictures, etc.) in order to ensure that the content is not downloaded from its international origin every time a user in South Africa requires it. This ensures faster download speeds, better customer experience, saving on international IP Transit and IP network bandwidth and a huge international traffic cost saving to Telkom.

Network and services for the 2010 FIFA World Cup™

South Africa hosted the 2010 FIFA World Cup™ from 11 June to 11 July 2010 in nine host cities, Johannesburg, Pretoria, Rustenburg, Nelspruit, Polokwane, Bloemfontein, Cape Town, Port Elizabeth and Durban.

As was the case during last year's FIFA Confederations Cup™ (FCC), Telkom, as the National Supporter, was again FIFA's preferred Information and Communication Technology (ICT) service provider to deliver a range of voice, data, hosting, broadcasting and international services at the event.

In terms of the stringent FIFA information technology and Telecommunications (IT&T) specifications, we were obliged to render a 99.999% availability to ensure a smooth and uninterrupted event. Through the deployment of a range of Next Generation Network (NGN) technologies, the meticulous planning of our network infrastructure and proactive network management capability rendered from our National Network Operations Centre (NNOC) in Centurion (Pretoria), we met and exceeded FIFA's expectations.

ICT services provided

We provided a wide range of services to a diverse FIFA 2010 customer base. These ranged from normal POTS to ISDN, ADSL, high speed Broadband, Video and Audio services, IPLCs and VPN Solutions. The customer bases ranged from FIFA IT services providers, LOC media customers, FIFA broadcasters services and other broadcasters eg ESPN and Media Broadcast. These services were used by our customers locally and internationally to transport voice, video and data regarding the 2010 FIFA World Cup™.

Network performance and maintenance of the access network

Maintaining our access network is becoming increasingly more challenging given the age of the infrastructure, the variety of old access technologies and dwindling skills of the staff working on the network. As a result, we have an unacceptably high fault rate – for example, for commodity services the fault rate for the year was 471 faults per 1,000 lines and for Broadband residential services, the fault rate was 528 faults per 1,000 lines. Malicious damage to the network and repeated theft is a major contributor to the deterioration of the network quality. We have commissioned and in-depth study of the fault drivers and we will be introducing an improvement project by our Business Improvement and Re-engineering Office.

The performance of our core transport network has improved significantly with the installation and commissioning of the ASTN (Automatic Switched Transport Network) during 2009. The deployment of this capability was part of our master plan but was expedited to ensure the success of the 2009 FIFA Confederation Cup™ and 2010 FIFA World Cup™. Historically, creating traffic paths through a series of network elements has involved configuration of individual cross-connects on each network element, thereby limiting self-restoration of these pre-configured paths. Our ASTN capability allows the user to specify the start point, the end point and the bandwidth required and the element manager on the network elements will then allocate the path through the network. The actual path that the traffic will take through the network is not specified by the user, and this allocated path will automatically be rerouted under failure conditions thus ensuring greater resilience and reliability of the network. During 2009 and 2010, priority services layers and traffic eg IPNet (our business data connectivity platform) was switched over onto this ASTN network.

We have already reaped the benefits of this network. The ASTN and video adaptation architecture supported the reliability of the FIFA 2010 World Cup™ video broadcast contribution network. In addition, due to various network reliability projects, a statistical analysis over the last six months also shows a gradual reduction in major customer impacting transport network failures.

Cable theft and other incidents (TBI)

This past year saw a 7% reduction of cable theft, breakage and incidents (TBIs) which reduced our expenditure in this area.

Copper cable theft incidences were also down but there is still, at any given time, approximately 25,000 customers without service because of cable theft.

A number of initiatives to limit cable theft were put in place during the year. These were:

- Where cables are repeatedly stolen, they are no longer replaced.
- Cables are buried where possible;
- Wireless technologies are used to restore services where possible; and
- In high risk areas, additional security services are used to safeguard our cable infrastructure.

The impact of the August 2009 Industrial Action

An average of 2,000 employees per day went on strike during August 2009 and the impact was particularly severe in the Network Field Operations organisation. During the strike period, the number of outstanding customer service faults increased by 30%, with the faults peaking during August 2009.

Over the corresponding strike period, we saw a significant increase in sabotage of equipment and infrastructure around the country. The damage to our network due to suspected sabotage, cost several million rands to repair. We had 18 overhead cables; more than 50 underground cables; more than 40 fibre cables and over 100 street distribution cabinets damaged.

Service delivery

Service delivery is measured for assurance and fulfilment in four main segments. These are:

Operational review (continued)

- Commodity Services – voice and basic rate ISDN services for residential and business customers.
- Broadband Services – a service provided at any bandwidth for business and residential on the ADSL platform regardless of the access method.
- Data Services – a permanent connection service provided on subrate (bandwidth of less than 2048 Kbits/sec) or on a megaline (bandwidth of 2048 Kbits/sec or greater).
- Complex Voice Services – services provided on PBX and Primary Rate ISDN services.

In the year under review there was an improvement in most metrics compared to the previous year's performance. Notwithstanding this improvement, service levels lag ever increasing customer expectations.

Service delivery on Assurance is lagging the performance achieved on new installations and other fulfilment and particularly for Broadband Services, Data Services and Complex Voice Services. The performance was negatively influenced by labour issues, continued problems with theft and an aging network and technologies. These issues challenge us to deliver a sustained quality service to all of our customers.

Focus areas, impacting sustained quality service delivery, identified through a Do Quality project are:

- technical ability and network issues,
- management systems
- mindsets, behaviours and capabilities

Telkom Mobile

The majority of global telecommunications businesses have discovered that to continue to be successful, an integrated mobile business is essential, and we are no different in this regard. In South Africa, the mobile market, and especially mobile data, is still growing and we are poised to take advantage of this.

We plan to invest R6 billion over the next five years in this project and are negotiating innovative financing structures with our suppliers to potentially reduce our capital investment in favour of operating lease type payments.

Because of our existing assets and customer base we have a strong competitive edge and we will build on this as we put the finishing touches to the launch of our mobile offering. In addition to providing us with an additional source of revenue, the mobile business will also enable us to offer telecommunications services in areas where we face major challenges – for example, copper cable theft and the slow roll-out of services in greenfields areas.

The services we will offer are prepaid, post-paid and hybrid voice and data; 2G voice and data and 3G (including HSPA) voice and data. Additionally, we have signed a national roaming agreement with MTN and plan to offer our customers a full international roaming service through another established and experienced international operator.

We have signed supplier agreements with Huawei (information technology and networks) and AMDOCS (billing support services) and will deploy the network via an IP Radio Access Network (RAN), a technology which allows us to quickly deploy newer mobile technologies and dynamically change configurations in the mobile network. The RAN is also more power efficient, giving us a 30% saving in terms of power compared to the previous legacy systems.

In terms of roll-out, we currently have more than 500 sites under construction across South Africa. We have ordered 2,000 base stations, many of which are currently being built.

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

While the mobile section remains part of Telkom SA, it will be launched through six flagship stores with its own identity and brand.

Telkom International

The international business unit contains four subsidiaries – Multi-Links; Africa Online; MWEB Africa and Telkom Management Services.

Multi-Links

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

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

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

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

The Nigerian operations reported EBITDA losses of R659 million, a 191.6% increase from the loss of R226 million reported at 31 March 2009. Trading conditions in Nigeria remained tough as a result of local economic factors, pricing pressures and the short term strategy previously in place to reduce inventories and acquire subscribers by subsidising certain handsets. Provisions were made against certain handset models with the intention of liquidating these items. The total charge to the income statement for the year ended 31 March 2010 amounted to NGN 4.8 billion. The EBITDA margin decreased to a negative margin of 34.9% from a negative margin of 11.9% recorded at 31 March 2009. Key issues were identified that hampered Multi-Links's customer acquisition drive, the most significant of which was the management of the dealers. As part of an investment in improving the distribution system, a new dealer structure was put in place early in the financial year with the appointment of a single super-dealer. In addition to the above, the management team is also reviewing existing contracts to improve margins and achieve strategic flexibility. Various contracts that were previously entered into, accounting for a significant component of total operating expenditure are being renegotiated for better terms and conditions. These range from distribution, network sites, network maintenance, expatriate costs and IT operations. The renegotiations have to date yielded some savings and are ongoing.

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

During the 2009/10 financial year, the Multi-Links's build and expansion programme achieved the following:

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

It has been necessary to continue investing in the Multi-Links network and operations in order to complete capital projects and ensure that the asset is properly structured for future viability.

The balance sheet of Multi-Links was over-geared and undercapitalised. Accordingly, Multi-Links was recapitalised with preference share capital in order to enable the company to repay existing debt and negotiate third party financing.

Conclusions

We expect to achieve EBITDA breakeven by 31 March 2011. The Board of Directors is considering how best to reduce exposure to risk in Nigeria.

MWEB Africa and Africa Online

For the year under review, MWEB's revenue was R311 million derived from its 19,777 customers. Africa Online's revenue was R154 million.

Following the purchase of MWEB in 2009, the Telkom Board approved the integration of the company with Africa Online and it is expected that the restructure will be finalised in September 2010. The restructure incorporates:

- The various regulatory approvals;
- The dissolution of the MWEB Africa and Africa Onllne legal structures;
- The merging of competing country structures and subsidiaries;
- The winding up of the resultant dormant structures; and
- The integration and rationalisation of the groups' management, policies, practices and procedures.

The new group will be known as iWayAfrica and its new corporate identity and brand is expected to be completed by September 2010.

Operational review (continued)

Telkom Management Services

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

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

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

Cybernest – our data centre operations

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

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

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

Three year Group financial review

for the year ended 31 March

Amounts in accordance with IFRS (in ZAR millions, except percentages)		2009	2010	CAGR (%)
Normalised statement of comprehensive income				
Operating revenue		36,784	**37,029**	0.7
Operating expenses (including depreciation)		30,220	**32,746**	8.4
EBITDA		11,574	**9,809**	(15.2)
Operating profit		6,915	**4,685**	(32.2)
Profit before tax		4,664	**3,838**	(17.7)
Profit from continuing operations		2,445	**2,272**	(7.1)
Basic earnings per share (cents)		483.1	**425.2**	(12.0)
Headline earnings per share (cents)		532.7	**473.0**	(11.2)
Dividend per share (cents)		660.0	**375.0**	(43.2)
Statement of financial position	2008	2009	**2010**	
Total assets	70,372	85,771	**56,819**	(10.1)
Current assets	12,609	11,287	**12,301**	(1.2)
Non-current assets	57,763	51,002	**44,518**	(12.2)
Assets of disposal groups held for sale	–	23,482	**–**	–
Total liabilities	38,261	50,276	**26,555**	(16.7)
Current liabilities	21,931	17,433	**12,351**	(25.0)
Non-current liabilities	16,330	16,970	**14,204**	(6.7)
Liabilities of disposal groups held for sale	–	15,873	**–**	–
Shareholders' equity	32,111	35,495	**30,264**	(2.9)
Capital expenditure	8,428	9,629	**5,377**	(20.1)
Total debt	18,365	18,630	**9,951**	(26.4)
Net debt	16,617	15,497	**4,723**	(46.7)
Statement of cash flows				
Cash flow from operating activities		11,432	**(3,317)**	(129.0)
Cash flow from investing activities		(17,005)	**15,578**	(191.6)
Cash flow from financing activities		7,093	**(10,096)**	(242.3)
Capital expenditure excluding intangibles		8,640	**4,964**	(42.5)
Operating free cash flow		(2,237)	**5,507***	(346.2)
Financial ratios				
Operating profit margin (%)		18.8	**12.7**	(32.5)
EBITDA margin (%)		31.5	**26.5**	(15.9)
Net profit margin (%)		6.6	**6.1**	(7.6)
Net debt to EBITDA		1.3	**0.5**	(61.5)
Before tax operating return on assets (%)		16.3	**13.6**	(16.6)
Capital expenditure to revenue (%)		26.2	**14.5**	(44.7)

** Excludes the effects of the Vodacom transaction*

Financial review

Results of operations

Segment structure

The Telkom South Africa segment provides fixed-line access and voice services, fixed-mobile and data communications services throughout South Africa. The Multi-Links segment provides fixed, mobile, data and international communications services in Nigeria through our Multi-Links subsidiary. The other segment is split geographically between international and South Africa. Other international category provides internet services outside South Africa, through our Africa Online and MWEB Africa subsidiaries and management services through our Telkom Management Services Company. The Other South African category includes the Trudon Group, Swiftnet and the Group's corporate centre.

Of the separately reported operations identified within Telkom's business units i.e. Telkom South Africa, Telkom International and the Data centre operations (DCO); Telkom South Africa and Multi-Links, exceed the thresholds for reporting. Whilst DCO is capable of generating external revenue in the future the Group is still in the process of allocating assets/ liabilities, revenue and expenses to this segment from Telkom South Africa; as a result, the DCO will continue to be shown as part of the Telkom South Africa segment until such time as the information is accurately split out. Therefore the reportable segments for the Telkom Group are Telkom South Africa and Multi-Links. The other remaining segments are combined in an 'all other segment' category. The all other segment category is split geographically into South Africa and other African countries.

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

The reported results for the period are impacted by the accounting for the sale and unbundling of our 50% stake in Vodacom and related transactions, the impairment of the goodwill and net asset value of Multi-Links, the sale of Telkom Media and FIFA contract with the Department of Communications.

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

Financial review (continued)

Year on year reconciliation of normalised Group statement of comprehensive income

Continuing operations In ZAR millions	Restated March 2009	Effects of Vodacom transaction	Other unusual items	Normalised March 2009	Reported March 2010	Effects of Vodacom transaction	Other unusual items	**Normalised March 2010**	Variance %
Operating revenue	36,027	876[1]	(119)[5]	36,784	37,427	–	(398)[13]	**37,029**	0.7
Other income	351			351	19,005	(18,535)[9]	(68)[14]	**402**	14.5
Operating expenses	29,619	1,354	(753)	30,220	39,294	(951)	(5,597)	**32,746**	8.4
Employee expenses	8,015	–		8,015	9,876	(951)[10]		**8,925**	11.4
Payments to other operators	6,937	1,493[2]		8,430	8,386	–		**8,386**	(0.5)
Selling, general and administrative expenses	5,794	29[2]	(119)[5]	5,704	7,000	–	(357)[13]	**6,643**	16.5
Service fees	2,756	(177)[3]		2,579	2,702	–		**2,702**	4.8
Operating leases	824	9[2]		833	966	–		**966**	16.0
Depreciation, amortisation, impairment and write-offs	5,293		(634)[6]	4,659	10,364		(5,240)[15]	**5,124**	10.0
Results from operating activities	6,759	(478)	634	6,915	17,138	(17,584)	5,131	**4,685**	(32.2)
Investment income	183	–		183	508	–		**508**	177.6
Gain on distribution of asset	–	–		–	25,688	(25,688)		**–**	–
Finance charges and fair value movements	2,843	–	(409)	2,434	1,370	(15)	–	**1,355**	(44.3)
Interest	1,732	–		1,732	1,313	–		**1,313**	(24.2)
Foreign exchange and fair value movement loss	1,111		(409)[7]	702	57	(15)[11]		**42**	(94.0)
Profit before taxation	4,099	(478)	1,043	4,664	41,964	(43,257)	5,131	**3,838**	(17.7)
Taxation	1,765	421[4]	33[8]	2,219	4,485	(2,751)[12]	(168)[16]	**1,566**	(29.4)
Profit from continuing operations	2,334	(899)	1,010	2,445	37,479	(40,506)	5,299	**2,272**	(7.1)
EBITDA				11,574				**9,809**	(15.2)
EBITDA margin (%)				31.5				**26.5**	(15.9)
Basic earnings per share – continuing operations	461.0			483.1	7,404.7			**425.2**	(12.0)
Headline earnings per share – continuing operations	610.5			532.7	46.8			**473.0**	(11.2)
Rand/Naira exchange rate									
Closing rate at beginning of the year				N14.39				**N15.56**	8.1
Closing rate at end of the year				N15.56				**N20.58**	32.3
Year average rate (Source: Reuters)				N14.39				**N19.34**	34.4

(1) Inter-company elimination of revenue received from Vodacom.
(2) Inter-company elimination of payments made to Vodacom.
(3) Vodacom transaction expenses.
(4) Deferred tax asset raised on disposal of Vodacom.
(5) Revenue and expenses recognised on the FIFA contract.
(6) Includes R462 million impairment of Multi-Links goodwill, R39 million impairment of the Africa Online investment and R133 million amortisation of the FIFA intangible asset.
(7) Fair value loss on the revaluation of the Multi-Links put option.
(8) Deferred tax asset raised on the decision to dispose of Swiftnet.
(9) Profit on disposal of our 15% share of Vodacom.
(10) Compensation expense recognised in terms of IFRS2 relating to the amendment of the Telkom Conditional Share Plan.
(11) Fair value loss on the Vodacom shares held.
(12) Includes R1,353 million capital gains taxation on the sale of Vodacom, R977 secondary taxation on companies on the R19 special dividend and R421 million reversal of the deferred tax asset previously raised.
(13) Revenue and expenses recognised on the FIFA contract.
(14) Profit on sale of Telkom Media.
(15) Includes R2,148 million impairment of Multi-Links goodwill, R3,012 million impairment of Multi-Links assets and R80 million impairment of the FIFA intangible asset.
(16) Includes R135 million secondary taxation on companies on the R2.60 special dividend paid and R33 million reversal of the Swiftnet deferred tax asset previously raised.

Year ended 31 March 2010 compared to year ended 31 March 2009
Normalised consolidated results

	2009		**2010**		2010/2009
(in millions, except percentages)	ZAR	%	**ZAR**	**%**	% change
Operating revenue	36,784	100.0	**37,029**	**100.0**	0.7
Telkom South Africa	33,523	91.1	**33,487**	**90.4**	(0.1)
Multi-Links	1,900	5.2	**1,887**	**5.1**	(0.7)
Other					
International	194	0.5	**465**	**1.3**	139.7
South African	1,204	3.3	**1,316**	**3.5**	9.3
Intercompany eliminations	(37)	(0.1)	**(126)**	**(0.3)**	240.5
Other income[1]	351	100.0	**402**	**100.0**	14.5
Telkom South Africa	278	79.2	**314**	**78.1**	12.9
Multi-Links	–	–	**13**	**3.2**	–
Other					
International	3	0.8	**95**	**23.7**	–
South African	332	94.6	**406**	**101.0**	22.3
Intercompany eliminations	(262)	(74.6)	**(426)**	**(106.0)**	62.6
Operating expenses	30,220	100.0	**32,746**	**100.0**	8.4
Telkom South Africa	24,434	80.9	**26,077**	**79.6**	6.7
Multi-Links	2,422	8.0	**2,939**	**9.0**	21.3
Other					
International	324	1.1	**846**	**2.6**	161.1
South African	3,278	10.8	**3,105**	**9.5**	(5.3)
Intercompany eliminations	(238)	(0.8)	**(221)**	**(0.7)**	(7.1)
Operating profit	6,915	100.0	**4,685**	**100.0**	(32.2)
Telkom South Africa	9,367	135.5	**7,724**	**164.9**	(17.5)
Multi-Links	(522)	(7.6)	**(1,039)**	**(22.2)**	99.0
Other					
International	(127)	(1.8)	**(286)**	**(6.1)**	125.2
South African	(1,742)	(25.2)	**(1,383)**	**(29.5)**	(20.6)
Intercompany eliminations	(61)	(0.9)	**(331)**	**(7.1)**	442.6
Operating profit margin (%)		18.8		**12.7**	
Telkom South Africa		27.9		**23.1**	
Multi-Links		(1.6)		**(3.1)**	
Other					
International		(0.4)		**(0.9)**	
South African		(5.2)		**(4.1)**	
EBITDA[2]	11,574	100.0	**9,809**	**100.0**	(15.2)
Telkom South Africa	13,261	114.6	**12,128**	**123.6**	(8.5)
Multi-Links	(226)	(2.0)	**(659)**	**(6.7)**	191.6
Other					
International	(103)	(0.9)	**(219)**	**(2.2)**	112.6
South African	(1,372)	(11.9)	**(1,137)**	**(11.6)**	(17.1)
Intercompany eliminations	14	0.1	**(304)**	**(3.1)**	–
EBITDA margin (%)		31.5		**26.5**	

Notes:

(1) Other income includes profit and losses on disposal of investments, property, plant and equipment and intangible assets.

(2) EBITDA represents profit for the year, which includes profit on sale of investments, before taxation, finance charges, investment income and depreciation, amortisation, impairments and write-offs. We believe that EBITDA provides meaningful additional information to investors since it is widely accepted by analysts and investors as a basis for comparing a company's underlying operating profitability with that of other companies as it is not influenced by past capital expenditures or business acquisitions, a company's capital structure or the relevant tax regime. This is particularly the case in a capital intensive industry such as communications. It is also a widely accepted indicator of a company's ability to service its long-term debt and other fixed obligations and to fund its continued growth. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with IFRS or as a measure of liquidity. EBITDA is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies unless the definition is the same. In addition, the calculation of EBITDA for the maintenance of our covenants contained in our TL20 bond is based on accounting policies in use, consistently applied, at the time the indebtedness was incurred. As a result, EBITDA for purposes of those covenants is not calculated in the same manner as it is calculated in the above table.

Financial review (continued)

Operating revenue

Operating revenue increased marginally in the year ended 31 March 2010 mainly due to the inclusion of 11 months revenue from our newly acquired MWEB Africa subsidiary and higher operating revenue of our Trudon subsidiary. The relative strength of Telkom's reporting currency against the naira has adversely affected the rand revenue growth of the Nigerian operations at a Telkom Group level. Telkom South Africa's operating revenue decreased by 0.1% mainly due to lower traffic revenue, partially offset by growth in data revenue, higher interconnection revenue and higher revenue from subscriptions and connections and calling plans.

Other income

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets. The increase in other income in the 2010 financial year was primarily due to an increase in interest on debtor accounts.

Operating expenses

Operating expenses increased in the year ended 31 March 2010 as a result of increased operating expenses in Telkom South Africa, Multi-Links and due to the inclusion of 11 months operating expenditure of MWEB Africa.

The increase in Telkom South Africa's operating expenses in the 2010 financial year was primarily due to increased employee expenses, selling, general and administrative expenses and higher depreciation, amortisation impairments and write-offs.

The increase in the Multi-Links segment's operating expenses in the 2010 financial year was primarily due to increased selling, general and administrative expenses, payments to other operators, depreciation and operating leases.

Operating profit

Operating profit decreased in the 2010 financial year due to decreased operating profit in the Telkom South Africa and Multi-Links segments as a result of increased operating expenditure. As a result, Telkom South Africa's operating profit margin decreased from 27.9% in the 2009 financial year to 23.1% in the 2010 financial year. The operating margin for the Multi-Links segment decreased from a negative margin of 1.6% in the 2009 financial year to a negative operating margin of 3.1% in the 2010 financial year.

Investment income

Investment income consists of interest received on short-term investments and bank accounts and income received from our investments. The Group's investment income increased 177.6% to R508 million in the 2010 financial year. The increase was primarily due to higher interest income on short-term deposits.

Finance charges and fair value movements

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

The following table sets forth information related to our finance charges and fair value movements for the years indicated.

Normalised finance charges and fair value movements
Year ended 31 March

(in millions, except percentages)	2009 ZAR	2010 ZAR	2010/2009 % change
Interest expense	1,732	**1,313**	(24.2)
Local loans	1,895	**1,535**	(19.0)
Foreign loans	–	**11**	–
Finance charges capitalised	(163)	**(233)**	42.9
Foreign exchange losses and fair value movements	702	**42**	(94.0)
Fair value adjustments on derivative instruments	434	**(16)**	(103.7)
Foreign exchange losses	268	**.58**	(78.4)
Total finance charges	2,434	**1,355**	(44.3)

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

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

From a Group perspective, Telkom's loans to Multi-Links are accounted for as part of the Group's net investment in a foreign operation. Exchange rate differences are therefore recognised in other comprehensive income and will be reclassified from equity to profit and loss in the event of a disposal of the net investment.

Taxation

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

Minority interests

Minority interests in the income of subsidiaries increased to R127 million in the year ended 31 March 2010 primarily due to the increased profitability of Trudon, partially offset by the exclusion of minority interest of Vodacom in the 2010 financial year.

Profit for the year attributable to equity holders of Telkom

Profit for the year attributable to equity holders of Telkom decreased to R2,272 million in the 2010 financial year primarily due to decreased operating profit in our Telkom South Africa and Multi-Links segments, partially offset by lower finance charges, lower taxation and higher investment income.

Telkom South Africa

The following is a discussion of the results of operations from the Telkom South Africa segment before eliminations of intercompany transactions with the other segments. The Telkom South Africa segment is the largest segment based on revenue and profit contribution.

Telkom South Africa operating revenue

Our fixed-line operating revenue is derived principally from fixed-line subscriptions and connections; traffic, which comprises local and long-distance traffic, fixed-to-mobile traffic, international outgoing traffic and international voice over internet protocol services; and interconnection, which comprise terminating and hubbing traffic. We also derive fixed-line operating revenue from our data business, which includes data transmission services, managed data networking services and internet access and related information technology services.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprises monthly subscriptions for access line rental, value-added services and free or discounted rates on calls. The access line rentals and value-added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Subscription based, calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out-of-plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams.

The following table shows operating revenue for our Telkom South Africa segment broken down by major revenue streams and as a percentage of total revenue for our Telkom South Africa segment and the percentage change by major revenue stream for the years indicated.

Financial review (continued)

Telkom South Africa operating revenue
Year ended 31 March

(in millions, except percentages)	2009 ZAR	2009 %	**2010 ZAR**	**2010 %**	2010/2009 % change
Subscriptions and connections	6,614	19.7	**6,814**	**20.4**	3.0
Traffic	15,323	45.7	**13,893**	**41.4**	(9.3)
Local	3,634	10.8	**3,205**	**9.6**	(11.8)
Long-distance	2,036	6.1	**1,805**	**5.4**	(11.3)
Fixed-to-mobile	7,409	22.1	**6,452**	**19.2**	(12.9)
Fixed-to-fixed	11	0.0	**37**	**0.1**	236.4
International outgoing	933	2.8	**910**	**2.7**	(2.5)
Subscription based calling plans	1,300	3.9	**1,484**	**4.4**	14.2
Interconnection	2,084	6.2	**2,608**	**7.8**	25.1
Data	9,310	27.8	**9,969**	**29.8**	7.1
Sundry revenue	192	0.6	**203**	**0.6**	5.7
Telkom South Africa operating revenue	33,523	100.0	**33,487**	**100.0**	(0.1)

Telkom South Africa's operating revenue decreased slightly in the 2010 financial year primarily due to lower traffic volumes, partially offset by growth in data revenues, higher interconnection revenue and increased revenue from subscriptions and connections and subscription based calling plans.

Revenue per fixed access line decreased 0.1% to R5,345 in the 2010 financial year from R5,349 in the 2009 financial year primarily due to a 2.9% decrease in the average number of access lines and increased interconnection and subscriptions and connection revenue partially offset by lower traffic revenue.

Subscriptions and connections. Revenue from subscriptions and connections consists of revenue from connection fees, monthly rental charges, value added voice services and the sale and rental of customer premises equipment for postpaid and prepaid PSTN lines, including ISDN channels and private payphones. Subscriptions and connections revenue is principally a function of the number and mix of residential and business lines in service, the number of private payphones in service and the corresponding charges. The following table sets forth information related to our fixed-line subscription and connection revenue during the years indicated.

Telkom South Africa subscription and connection revenue
Year ended 31 March

	2009 ZAR	**2010 ZAR**	2010/2009 % change
Total subscriptions and connections revenue (in millions, except percentages)	6,614	**6,814**	3.0
Total subscription access lines (thousands, except percentages)[(1)]	4,319	**4,156**	(3.8)
Postpaid			
PSTN[(2)]	2,769	**2,625**	(5.2)
ISDN channels	781	**784**	0.4
Prepaid PSTN	766	**744**	(2.9)
Private payphones	3	**3**	–

Notes:

(1) Total subscription access lines are comprised of PSTN lines, including ISDN lines and private payphones, but excluding internal lines in service and public payphones. Each analog PSTN line includes one access channel, each basic rate ISDN line includes two access channels and each primary rate 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 in the year ended 31 March 2010 mainly due to higher customer premises equipment sales and increased line rental tariffs on postpaid lines partially offset by lower business and residential postpaid PSTN lines. The average monthly prices for subscriptions increased by 5.5% on 1 August 2009.

The decrease in the number of residential postpaid PSTN lines in service in the 2010 financial year was primarily as a result of increased competition and customer migration to other operators leading to lower connections. The increase in the number of postpaid ISDN channels was driven by increased demand for higher bandwidth and functionality. The decrease in prepaid PSTN lines in the 2010 financial year was primarily due to a decrease in demand.

Traffic. Traffic revenue consists of revenue from local, long-distance, fixed-to-mobile, fixed-to-fixed and international outgoing calls, international voice over internet protocol services and subscription based calling plans. Traffic revenue is principally a function of tariffs and the volume, duration and mix between relatively more expensive domestic long distance, international and fixed-to-mobile calls and relatively less expensive local calls.

Telkom has in recent years introduced calling plans as a customer retention strategy in order to defend revenues. These calling plan arrangements comprise monthly subscriptions for access line rental, value-added services and free or discounted rates on calls. The access line rentals and value-added services revenue components of calling plan arrangements are included in subscriptions and connections revenue. In response to the significant growth in calling plan arrangements, the need arose to separate traffic revenue resulting from subscription based calling plans into annuity revenue and the respective traffic revenue streams. Subscription based calling plans revenue includes traffic annuity revenue related to calling plans. Discounted and out of plan traffic relating to these calling plans is disclosed under the applicable traffic revenue streams. Traffic includes dial-up internet traffic.

The following table sets forth information related to our Telkom South Africa traffic revenue for the years indicated.

Financial review (continued)

Telkom South Africa traffic revenue
Year ended 31 March

	2009	**2010**	2010/2009 % change
Local traffic revenue (ZAR millions, except percentages)	3,634	**3,205**	(11.8)
Local traffic (millions of minutes, except percentages)[1]	8,822	**6,963**	(21.1)
Long distance traffic revenue (ZAR millions, except percentages)	2,036	**1,805**	(11.3)
Long distance traffic (millions of minutes, except percentages)[1]	3,631	**3,238**	(10.8)
Fixed-to-mobile traffic revenue (ZAR millions, except percentages)	7,409	**6,452**	(12.9)
Fixed-to-mobile traffic (millions of minutes, except percentages)[1]	4,113	**3,646**	(11.4)
Fixed-to-fixed traffic revenue (ZAR millions, except percentages)	11	**37**	236.4
Fixed-to-fixed traffic (millions of minutes, except percentages)[1]	13	**47**	261.5
International outgoing traffic revenue (ZAR millions, except percentages)	933	**910**	(2.5)
International outgoing traffic (millions of minutes, except percentages)[1]	622	**595**	(4.3)
International voice over internet protocol (millions of minutes, except percentages)[2]	34	**60**	76.5
Subscription based calling plans revenue (ZAR millions, except percentages)	1,300	**1,484**	14.2
Subscription based calling plans (millions of minutes, except percentages)	3,546	**3,805**	7.3
Total traffic revenue (ZAR millions, except percentages)	15,323	**13,893**	(9.3)
Total traffic (millions of minutes, except percentages)[1]	24,869	**23,082**	(7.2)
Average total monthly traffic minutes per average monthly access line (minutes)[3]	385	**349**	(9.4)

Notes:
(1) Traffic, other than international voice over internet protocol traffic, is calculated by dividing total traffic revenue by the weighted average tariff during the relevant period. Traffic includes dial-up internet traffic.
(2) International voice over internet protocol traffic is based on the traffic reflected in invoices.
(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.

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

ICASA approved a 2.4% increase in the overall tariffs for services in the basket effective 1 August 2008 and a 1.7% increase in the overall tariffs for services in the basket effective 1 August 2009. Traffic was adversely affected in the 2010 financial year by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dialup traffic being substituted by our ADSL service, as well as the decrease in the number of prepaid and residential postpaid PSTN.

Local traffic revenue decreased in the 2010 financial year primarily due to significantly lower traffic resulting primarily from economic conditions, internet call usage being substituted by our ADSL service, the substitution of calls placed using mobile services, increased competition and migration to calling plans. We increased penetration of subscription based calling plans to stimulate usage in the 2010 financial year and to counteract mobile substitution, which effectively lowers the cost to the customer. The decrease in traffic volumes were partially offset by an increase in tariffs. On 1 August 2008, we increased the price of local peak calls after the first unit by 3.2% to 39.2 SA cents per minute (VAT inclusive) and on 1 August 2009 by 10.7% to 43.4 SA cents per minute. On 1 August 2008, the price of local off-peak calls increased 9.2% on average and on 1 August 2009, the price of local off-peak calls increased 11.3% on average.

Long distance traffic revenue decreased in the 2010 financial year mainly due to a decrease in long distance traffic, partially offset by increased traffic related to Telkom Closer packages. The fixed-line long distance tariffs remained unchanged on 1 August 2008 and 1 August 2009.

Revenue from fixed-to-mobile traffic consists of revenue from calls made by our fixed-line customers to the three mobile networks in South Africa and is primarily a function of fixed-to-mobile tariffs and the number, the duration and the time of calls. Fixed-to-mobile traffic revenue decreased in the 2010 financial year due to lower traffic as a result of mobile substitution.

Revenue from fixed-to-fixed traffic consists of revenue from calls made by our fixed-line customers to Neotel, USALs and VANS and is primarily a function of fixed-to-fixed tariffs and the number, the duration and the time of calls. Fixed-to-fixed traffic revenue increased in the 2010 financial year due to higher traffic volumes.

Revenue from international outgoing traffic consists of revenue from calls made by our fixed-line customers to international destinations and from international voice over internet protocol services and is a function of tariffs, exchange rates and the number, duration and mix of calls to destinations outside South Africa. In the 2010 financial year, international outgoing traffic revenue declined primarily as a result of a decrease in volumes. The average tariffs to all international destinations remained unchanged on 1 August 2008 and 1 August 2009, but tariffs to certain destinations such as Zimbabwe were increased whilst others such as the UK and USA were decreased.

Revenue from subscription based calling plans includes revenue from Telkom's subscription based plans, Telkom Closer and Supreme Call, which are bundled products on post-paid PSTN lines that include discounted rates and free minutes for a fixed monthly subscription fee.

In the 2010 financial year, revenue from subscription based calling plans increased by 14.2% primarily due to a 21.1% increase in customers subscribing to these packages.

Interconnection. We generate revenue from interconnection services for traffic from calls made by other operators' customers that terminate on or transit through our network. Revenue from interconnection services includes payments from domestic mobile, domestic fixed and international operators regardless of where the traffic originates or terminates. The following table sets forth information related to interconnection revenue for the years indicated.

Interconnection revenue
Year ended 31 March

	2009	**2010**	2010/2009 % change
Interconnection revenue (ZAR millions, except percentages)	2,084	**2,608**	25.1
Interconnection revenue from domestic mobile operators (ZAR millions, except percentages)	916	**1,043**	13.9
Domestic mobile interconnection traffic (millions of minutes, except percentages)[1]	2,484	**2,319**	(6.6)
Interconnection revenue from domestic fixed-line operators (ZAR millions, except percentages)	111	**228**	105.4
Domestic fixed-line interconnection traffic (millions of minutes, except percentages)[2]	415	**736**	77.3
Interconnection revenue from international operators (ZAR millions, except percentages)	1,057	**1,337**	26.5
International interconnection traffic (millions of minutes, except percentages)[2]	1,189	**1,673**	40.7

Notes:

(1) Domestic mobile interconnection traffic, other than international outgoing mobile traffic, is calculated by dividing total domestic mobile and domestic fixed-line interconnection traffic revenue, respectively, by the weighted average domestic mobile and domestic fixed-line interconnection traffic tariffs during the relevant period. International outgoing mobile traffic is based on the traffic registered through the respective exchanges and reflected in interconnection invoices.

(2) International interconnection and domestic fixed-line interconnection traffic is based on the traffic registered through the respective exchanges and reflected on interconnection invoices.

Interconnection revenue from domestic mobile operators includes revenue for call termination and international outgoing calls from domestic mobile networks, as well as access to other services, such as emergency services and directory enquiry services. Interconnection revenue from domestic mobile operators increased in the 2010 financial year mainly due to higher average tariffs, partially offset by lower volumes. Domestic mobile interconnection traffic decreased in the year ended 31 March 2010 primarily due to volumes lost to other international carriers.

Interconnection revenue from domestic fixed-line operators includes fees paid by Neotel, underserviced area licence holders and value-added network service providers for call termination and international outgoing calls, as well as access to other services, such as emergency services and directory inquiry services. Interconnection revenue from domestic fixed-line operators increased as a result of the entrance of Neotel and the further liberalisation of the South African telecommunications industry.

Interconnection revenue from international operators includes amounts paid by foreign operators for the use of our network to terminate calls made by customers of such operators and payments from foreign operators for interconnection hubbing traffic through our network to other foreign networks. Interconnection revenue from international operators increased in the year ended 31 March 2010 primarily due to increased switched hubbing traffic volumes due to a reduction in tariffs to stimulate competitiveness, partially offset by lower international incoming volumes and the strengthening of the rand against the SDR, the notional currency in which international rates are determined.

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. Revenue from data services is mainly a function of the number of subscriptions, tariffs, bandwidth and distance. The following table sets forth information related to revenue from data services for the periods indicated.

Data services revenue
Year ended 31 March

	2009	**2010**	2010/2009 % change
Data services revenue (ZAR millions, except percentages)	9,310	**9,969**	7.1
Leased lines and other data revenue[1]	7,452	**7,961**	6.8
Leased line facilities revenues from mobile operators	1,858	**2,008**	8.1
Number of managed network sites (at period end)	29,979	**33,226**	10.8
Internet all access subscribers (at period end)	423,196	**511,535**	20.9
Total ADSL subscribers (at period end)[2]	548,015	**647,462**	18.1

Notes:

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

(2) Excludes Telkom internal ADSL services of 1,151 and 1,029 as of 31 March 2010 and 2009, respectively.

Our data services revenue increased in the 2010 financial year primarily due to increased revenue from internet access, data connectivity services, including ADSL connectivity and SAIX, increased revenue from leased line facilities from mobile operators and managed data networks, including VPN Supreme.

Sundry revenue. Sundry revenue includes revenue relating to co-location of other licensed operators on Telkom owned properties, the sale of materials and revenue related to the recovery of costs for work performed on behalf of other licensed operators. Sundry revenue increased in the 2010 financial year primarily due to an increase in the number of co-location sites and revenue received for the re-location of Telkom infrastructure for the Gautrain project.

Telkom South Africa operating expenses

The following table shows the operating expenses of our Telkom South Africa segment broken down by expense category as a percentage of total revenue and the percentage change by operating expense category for the years indicated.

Telkom South Africa operating expenses
Year ended 31 March

	2009		**2010**		2010/2009
(in millions, except percentages)	ZAR	% of revenue	**ZAR**	**% of revenue**	% change
Employee expenses[1]	6,482	19.4	**7,327**	**21.9**	13.0
Payments to other network operators	7,536	22.4	**7,443**	**22.2**	(1.2)
Selling, general and administrative expenses	3,624	10.8	**3,996**	**11.9**	10.3
Service fees	2,227	6.7	**2,262**	**6.8**	1.6
Operating leases	671	2.0	**645**	**1.9**	(3.9)
Depreciation, amortisation, impairments and write-offs	3,894	11.6	**4,404**	**13.2**	13.1
Telkom South Africa operating expenses	24,434	72.9	**26,077**	**77.9**	6.7

Notes:

(1) Employee expenses include workforce reduction expenses of Rnil million in the year ended 31 March 2010 (2009: R8 million).

Telkom South Africa's operating expenses increased in the 2010 financial year primarily due to increased selling, general and administrative expenses, payments to other network operators, depreciation, amortisation, impairment and write-offs, employee expenses and service fees.

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

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

Telkom South Africa employee expenses
Year ended 31 March

(ZAR millions, except percentages and number of employees)	2009	**2010**	2010/2009 % change
Salaries and wages	5,148	**5,804**	12.7
Benefits	2,070	**2,077**	0.3
Employee related expenses capitalised	(736)	**(554)**	(24.7)
Employee expenses	6,482	**7,327**	13.0
Number of full-time, fixed-line employees (at period end)	23,520	**23,247**	(1.2)

Employee expenses increased in the year ended 31 March 2010 primarily due to higher salaries and wages as a result of average annual salary increases of 7.5% as agreed with the unions as well as the onetime adjustment to accelerate the elimination of disparities translating to an 11.2% average increase for the bargaining unit.

Salaries and wages increased in the year ended 31 March 2010 primarily due to the reclassification of medical aid contributions from benefits to salaries and wages and average annual salary increases of 11.2%.

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 marginally in the 2010 financial year primarily due to a higher provision for bonus as a result of salary increases, partially offset by the reclassification of medical aid contributions from benefits to salaries and wages.

Employee related expenses capitalised include employee related expenses associated with construction and infrastructure development projects. Employee related expenses capitalised decreased in the year ended 31 March 2010 primarily due to the reduction in the capital expenditure plan.

Payments to other network operators. Payments to other network operators include settlement payments paid to the three South African mobile communications network operators and commencing in the 2008 financial year, Neotel, for terminating calls on their networks and to international network operators for terminating outgoing international calls and traffic transiting through their networks.

The following table sets forth information related to our payments to other network operators for the years indicated.

Financial review (continued)

Telkom South Africa payments to other network operators
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Payments to mobile communications network operators	5,432	**4,847**	(10.8)
Payments to international and other network operators	1,853	**2,323**	25.4
Payments to fixed-line operators	251	**273**	8.8
Payments to other network operators	7,536	**7,443**	(1.2)

Payments to fixed-line operators decreased in the 2010 financial year due a decrease in fixed-to-mobile traffic volumes partially offset by higher switched hubbing volumes and higher call volumes from interconnection with Neotel, USALs and VANS.

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

Payments to international operators increased during the 2010 financial year due to increased switch hubbing volumes.

Payments to fixed-line operators increased in the 2010 financial year primarily due to higher call volumes from our fixed-line network to Neotel, Sentech, USALs and VANS.

Selling, general and administrative expenses. Selling, general and administrative expenses include materials and maintenance costs, marketing expenditures, bad debts, theft, losses and other expenses, including obsolete stock and cost of sales.

The following table sets forth information related to our fixed-line selling, general and administrative expenses for the years indicated.

Telkom South Africa selling, general and administrative expenses
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Materials and maintenance	2,186	**2,388**	9.2
Marketing	257	**282**	9.7
Bad debts	240	**357**	48.8
Other	941	**969**	3.0
Selling, general and administrative expenses	3,624	**3,996**	10.3

Selling, general and administrative expenses increased primarily as a result of higher maintenance cost on new technologies, higher maintenance material cost, as well as write downs and increased provisions of technologically obsolete inventory and items classified as slow moving inventory as a result of the economic slowdown and higher bad debts.

Materials and maintenance expenses include subcontractor payments and consumables required to maintain our network. Materials and maintenance expenses increased in the year ended 31 March 2010 primarily due to increased operating maintenance projects as result of new technologies employed in the network.

Marketing expenses increased in the 2010 financial year due to an increase in campaigns to stimulate usage.

Bad debt increased in the year ended 31 March 2010 as more debtors defaulted on payments as a result of poor economic conditions in South Africa. Bad debt as a percentage of revenue was 1.1% and 0.7% in the 2010 and 2009 financial years, respectively.

Other expenses include obsolete inventory, cost of sales, subsistence and travel and bad debts recovered. Other expenses increased in the 2010 financial year primarily due to write downs and increased provisions of technologically obsolete inventory and items classified as slow moving inventory as a result of the economic slowdown and higher bad debts. From 1 April 2009, ICASA changed the base of calculation of licence fees from 0.1% of revenue from PSTS and VANS to 1.5% of gross profit, which resulted in a R62 million increase in the provision for the year.

Service fees. Service fees include payments in respect of the management of our properties, to TFMC, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services and external auditors. Security refers to services to safeguard the network and contracts to ensure a safe work environment, such as guard services.

The following table sets forth information relating to service fees expenses for the years indicated.

Telkom South Africa service fees
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Property management	1,191	**1,313**	10.2
Consultants, security and other	1,036	**949**	(8.4)
Service fees	2,227	**2,262**	1.6

Service fees increased in the year ended 31 March 2010 primarily due higher property management fees as a result of electricity increases and increased maintenance of sites in preparation of the FIFA World Cup™, partially offset by lower insurance cost as a result of a reduction in the number of incidents.

Operating leases. Operating leases include payments in respect of equipment, buildings and vehicles. Operating leases decreased primarily due to a 4.1% reduction in the vehicle fleet from 8,266 vehicles at 31 March 2009 to 7,928 vehicles at 31 March 2010.

Telkom South Africa depreciation, amortisation, impairments and write-offs
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Depreciation of property, plant and equipment	3,255	**3,587**	10.2
Amortisation of intangibles	484	**559**	15.5
Write-offs of property, plant and equipment and intangible assets	155	**258**	66.5
Depreciation, amortisation, impairments and write-offs	3,894	**4,404**	13.1

Depreciation, amortisation, impairments and write-offs increased in the year ended 31 March 2010 primarily as a result of higher depreciation due to the ongoing investment in telecommunications network equipment and data processing equipment.

Multi-Links segment

Multi-Links operating revenue

Multi-Links operating revenue is derived principally from fixed, mobile, data, long distance and international communications services throughout Nigeria, through our wholly owned subsidiary, Multi-Links.

The following table shows the operating revenue for our Multi-Links segment for the years indicated.

Multi-Links operating revenue
Year ended 31 March

(in millions, except percentages)	2009 NGN	**2010 NGN**	2010/2009 % change
Subscriptions and connections	4,508	**2,932**	(35.0)
Traffic	17,427	**16,353**	(6.2)
Interconnection	3,402	**14,127**	315.3
Data	1,724	**3,135**	81.8
Multi-Links operating revenue	27,061	**36,547**	35.1

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

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

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

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

Multi-Links operating expenses

The following table shows operating expenses for our Multi-Links segment broken down by major expense categories and the percentage change for the years indicated.

Multi-Links operating expenses
Year ended 31 March

(in millions, except percentages)	2009 NGN	2010 NGN	2010/2009 % change
Employee expenses	1,888	**2,298**	21.7
Payments to other operators	9,369	**16,240**	73.3
Selling, general and administrative expenses	15,270	**25,747**	68.6
Service fees	459	**366**	(20.3)
Operating leases	2,757	**5,258**	90.7
Depreciation, amortisation, impairments and write-offs (excluding impairment)	4,271	**7,265**	70.1
Multi-Links operating expenses	34,111	**57,174**	67.6

Employee expenses increased by 21.7% in the year ended 31 March 2010, primarily due to the recruitment of new staff to fill strategic positions in the period under review and the realignment and restructuring of salaries, partially offset by a lower number of employees. Multi-Links undertook a headcount rationalisation including outsourcing of non-core activities.

This has seen the headcount being reduced from 1,124 to 767 at 31 March 2010, a 31.8% reduction. Additional rationalisation activities are still in progress.

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

Selling, general and administrative expenses increased 68.6% as a result of increased inventory write-offs and provisions, higher maintenance costs, marketing and expatriate fees. Handset subsidies totalled NGN 4,378 million. Service fees decreased 20.3% mainly due to lower insurance cost and audit fees.

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

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

Other International segment

Other International operating revenue

The following table shows the operating revenue for our other segment broken down by major revenue streams and the percentage change by major revenue stream for the years indicated.

Other International operating revenue
Year ended 31 March

(in millions, except percentages)	2009 ZAR	2010 ZAR	2010/2009 % change
MWEB Africa	–	**311**	-
Africa Online	194	**154**	(20.6)
Other International operating revenue	194	**465**	139.7

Financial review (continued)

The increase in other operating revenue was mainly attributable to the inclusion in the current year of revenue generated by our newly acquired subsidiary, MWEB Africa.

Africa Online's revenue decreased as a result of increased competition and high customer churn.

Other International operating expenses

The following table shows operating expenses for our other international segment broken down by major expense categories and the percentage change for the years indicated.

Other International operating expenses
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Employee expense	155	**221**	42.6
Payments to other operators	89	**86**	(3.4)
Selling, general and administrative expenses	48	**429**	793.8
Service fees	13	**34**	161.5
Operating leases	(5)	**9**	(280.0)
Depreciation, amortisation and impairments	24	**67**	179.2
Other International operating expenses	324	**846**	161.1

Increases in other operating expenses in the 2009 financial year were primarily driven by increases in selling, general and administrative expenses and employee expenses. The increase in these operating expenses was primarily due to the inclusion of operating expenses relating to the newly acquired subsidiary, MWEB Africa which impacted all expense categories.

The following table shows the contributions to other operating expenses by each of the subsidiaries and business units contained in our other international segment and the percentage change for the years indicated.

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
MWEB Africa	–	**326**	–
Africa Online	208	**184**	(11.5)
Telkom International	116	**322**	177.6
Telkom Management Services	–	**14**	–
Other International operating expenses	324	**846**	161.1

The increase in operating expenditure in the Other International segment is mainly attributable to the inclusion of the newly acquired MWEB Africa subsidiary in the 2010 financial year and higher operating expenditure in the Telkom International business unit due to an increase in selling, general and administrative expenses.

Other South African segment

Other South African operating revenue

The following table shows the operating revenue for our other South African segment broken down by major revenue streams and the percentage change by major revenue stream for the years indicated.

Other South African operating revenue
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Trudon	1,020	**1,114**	9.2
Swiftnet	99	**111**	12.1
Corporate centre	85	**91**	7.1
Other South Africa operating revenue	1,204	**1,316**	9.3

These revenue streams were further supported by the continued growth in advertising revenue from our subsidiary, Trudon. Revenue from directory services increased in the year ended 31 March 2010 primarily due to higher published revenue and internet sales.

The following table shows operating expenses for our other segment broken down by major expense categories and the percentage change for the years indicated.

Other South African operating expenses
Year ended 31 March

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Employee expense	1,250	**1,257**	(0.6)
Payments to other operators	27	**36**	33.3
Selling, general and administrative expenses	1,123	**1,133**	0.9
Service fees	535	**384**	(28.2)
Operating leases	(27)	**49**	281.5
Depreciation, amortisation and impairments	370	**246**	(33.5)
Other South Africa operating expenses	3,278	**3,105**	(5.3)

The following tables shows the contributions to Other South African operating expenses by each of the subsidiaries contained in our Other South African segment and the percentage change for the periods indicated.

(in millions, except percentages)	2009 ZAR	**2010 ZAR**	2010/2009 % change
Trudon	593	**644**	8.6
Swiftnet	100	**111**	11.0
Corporate centre	2,585	**2,350**	(9.1)
Other South Africa operating expenses	3,278	**3,105**	(5.3)

Financial review (continued)

Liquidity and capital resources

Group liquidity and capital resources

Cash flows

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

	Year ended 31 March		
	2009[1]	**2010**	2010/2009
(in millions, except percentages)	ZAR	**ZAR**	% change
Cash flows from operating activities	11,432	**(3,317)**	(129.0)
Cash flows from investing activities	(17,005)	**15,578**	191.6
Cash flows from financing activities	7,093	**(10,096)**	(242.3)
Net increase in cash and cash equivalents	1,520	**2,165**	42.4
Effect of foreign exchange rate differences	(30)	**(152)**	406.7
Net cash and cash equivalents at the beginning of the year	(208)	**1,780**	955.8
Net cash and cash equivalents at the end of the year	1,282	**3,793**	195.9

[1] *Includes Telkom's 50% share in Vodacom's cash flow for the year ended 31 March 2009.*

Cash flows from operating activities

Our primary sources of liquidity are cash flows from operating activities and borrowings. We intend to fund our expenses, indebtedness and working capital requirements from cash generated from our operations and from capital raised in the markets. The decrease in cash flows from operating activities in the 2010 financial year is mainly due to the inclusion of Telkom's 50% share of Vodacom's cash flow that was proportionately consolidated in the 2009 financial year and higher dividends paid, partially offset by lower finance charges and higher interest received. Included in cash flows from operating activities is R1,353 million capital gains taxation paid on the sale of Vodacom and R1,112 million secondary taxation on companies paid on the special dividends relating to the sale of Vodacom as well as special dividends paid relating to the Vodacom transaction of R11.2 billion.

Cash flows from investing activities

Cash flows from investing activities in the 2009 financial year relate primarily to investments in our fixed-line network, our Multi-Links and other segment's networks and our 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. Cash flows from investing activities in the 2010 financial year includes the R20.6 billion cash inflow from the sale of Vodacom. Excluding the proceeds from the sale of Vodacom the decrease in cash flows used in investing activities in the 2010 financial year was as a result of the reduction in capital expenditure of Telkom South Africa and Multi-Links as well as the acquisition of Gateway by Vodacom and the acquisition of the remaining 25% share in Multi-Links in the 2009 financial year.

Cash flows from financing activities

Cash flows from financing activities are primarily a function of borrowing and share buy back activities.

In the 2010 financial year, loans repaid exceeded loans raised and net financial assets increased. In the 2010 financial year, cash flows from financing activities was primarily due to the repayment of commercial paper debt of R7,824 million as well as the repayment of term loans of R2,000 million and the part repayment of syndicated loan of R820 million, partially offset by the issuance of R2,265 million nominal value of commercial paper bills.

Working capital

We had negative consolidated working capital from continuing operations of approximately R50 million as of 31 March 2010, compared to negative consolidated working capital of approximately R6.1 billion as of 31 March 2009. Negative working capital arises when current liabilities are greater than current assets. The decrease in negative working capital in the 2010 financial year was primarily due to the repayment of short-term interest bearing debt due to the repayment of commercial paper debt and term loans, an increase in cash available due to the sale of Vodacom and decreased capital expenditure. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with the 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 and with new borrowings and borrowings available under existing credit facilities. We had R5.8 billion available under existing credit facilities as of 31 March 2010.

Capital expenditure

The following table shows the Telkom Group's investments in property, plant and equipment including intangible assets from continuing operations for the years indicated.

	Year ended 31 March		
	2009	**2010**	2010/2009
(in millions, except percentages)	ZAR	**ZAR**	% change
Group capital expenditure			
Telkom South Africa	6,586	**4,170**	(36.7)
Baseline	3,327	**2,366**	(28.9)
Revenue generating	30	**203**	576.7
Network evolution	1,373	**654**	(52.4)
Sustainment	115	**58**	(49.6)
Effectiveness and efficiencies	571	**432**	(24.3)
Support	729	**440**	(39.6)
Regulatory and other	441	**17**	(96.1)
Multi-Links	2,791	**1,036**	(62.9)
Other International	80	**50**	(37.5)
Other South Africa	172	**121**	(29.7)
Total investment in property, plant and equipment and intangible assets	9,629	**5,377**	(44.2)

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

Baseline capital expenditure of R2,366 million (2009: R3,327 million) was largely for the deployment of technologies to support the growing data services business (including the ADSL footprint), links to the mobile cellular operators and expenditure for access line deployment in selected high growth commercial and business areas. The lower expenditure for the period can be attributed to a more measured approach to the rollout of infrastructure to meet short-term demand and revenue generating services. The continued focus on rehabilitating the access network and increasing the efficiencies and reducing redundancies in the transport network contributed to the network evolution and sustainment capital expenditure.

The increase in revenue generating capital expenditure was as a result of the mobile business case. The decrease in expenditure on network evolution was mainly due to the deployment of automated restoration functionality for the National Transport Network and the provisioning of bandwidth for the 2010 FIFA World Cup™ and for future network growth requirements that occurred mostly in the 2009 financial year.

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

Financial review (continued)

The following table sets forth our consolidated indebtedness, including finance leases as of 31 March 2010.

(in millions)	Interest payment dates	Interest rate/ coupon (%)	Out-standing as at 31 March 2010 ZAR	Nominal amount out-standing as of 31 March 2010 ZAR	Maturing Year ended 31 March 2011 ZAR	2012 ZAR	2013 ZAR	2014 ZAR	2015 ZAR	After 2015 ZAR
Telkom Company										
Bonds										
12.45% unsecured local bond due 29 April 2012 (TL12)[1, 2]	29 Apr & 29 Oct	12.45	**1,059**	**1,060**	–	–	1,060	–	–	–
11.90% unsecured local bond due 29 April 2015 (TL15)[1, 3]	29 Apr & 29 Oct	11.9	**1,159**	**1,160**	–	–	–	–	–	1,160
6% unsecured local bond due 24 February 2020 (TL20)[1, 4]	22 Feb	6	**1,373**	**2,500**	–	–	–	–	–	2,500
Zero coupon unsecured loan stock due 30 September 2010 (PPO2)[5]	–	–	**401**	**430**	430	–	–	–	–	–
Zero coupon unsecured loan stock due 15 June 2010 (PPO3)[6]	–	–	**1,310**	**1,350**	1,350	–	–	–	–	–
Commercial paper	–	–	**–**	**–**	–	–	–	–	–	–
Syndicated loans due 17 December 2013		9.1302	**3,268**	**3,280**	–	–	–	3,280	–	–
Term loans		–	**–**	**–**	–	–	–	–	–	–
Bank facilities										
R1,5 billion uncommitted loan facility with ABSA Bank Limited, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion committed facility with The Standard Bank of South Africa Limited, repayable within 365 days of drawdown	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion committed loan facility with FirstRand Bank Limited, repayable on 364 days notice.	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
$35 million uncommitted loan facility with Calyon Corporate and Investment Bank, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R1 billion uncommitted loan facility with Sumitomo Mitsui Banking Corporation, repayable on demand.	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R500 million call loan facility with iNkotha Investments Limited, repayable on demand	–	Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
R500 million call loan facility with Investec Bank Limited, repayable on demand		Mutually agreed	***Not utilised***	***Not utilised***	–	–	–	–	–	–
Various bank loans[7]	–	Various	**109**	**109**	16	10	7	–	–	76
Bank overdraft and other short-term debt	–	–	**–**	**–**	–	–	–	–	–	–
Finance leases[8]	n/a	13.43% – 37.78%	**950**	**950**	48	57	79	55	79	632
Total			**9,629**	**10,839**	1,844	67	1,146	3,335	79	4,368

(in millions)	Interest payment dates	Interest rate/ coupon (%)	Outstanding as at 31 March 2010 ZAR	Nominal amount outstanding as of 31 March 2010 ZAR	Maturing Year ended 31 March 2011 ZAR	2012 ZAR	2013 ZAR	2014 ZAR	2015 ZAR	After 2015 ZAR
Trudon (Pty) Limited										
Various finance leases	–	Various	**2**	**2**	1	1	–	–	–	–
Multi-Links Telecommunications Limited										
$18 million Export Development Bank of Canada funding	–	LIBOR + 1.25%	**97**	**97**	28	28	28	14	–	–
$41.6 million Huawei Vendor Financing Facility funding	–	LIBOR + 2%	**3**	**3**	3	–		–	–	–
Africa Online Limited and MWEB										
$1.5 million loan with PTA bank and Barclays Bank	–	Various	**5**	**5**	5	–	–	–	–	–
Bank overdrafts and other short-term debt	–	Various	**1**	**1**	1	–	–	–	–	–
Finance lease			**–**	**–**	–					
Total subsidiaries			**108**	**108**	38	29	28	14	–	–
Grand total			**9,737**	**10,947**	1,881	96	1,174	3,349	79	4,368

1. *Listed on the Bond Exchange of South Africa.*
2. *The TL12 was issued on 29 April 2009 at a yield to maturity of 12.47% and listed on the Bond Exchange of South Africa.*
3. *The TL15 was issued on 29 April 2009 at a yield to maturity of 11.91% and listed on the Bond Exchange of South Africa.*
4. *2,500 of these bonds were issued on 22 February 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect of 1 April 2005.*
5. *Issued on 25 February 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.*
6. *Issued on 15 June 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.*
7. *R109 million of Telkom's indebtedness outstanding as of 31 March 2010 was guaranteed by the Government of the Republic of South Africa. EURO loans converted at the spot rate.*
8. *Finance leases are mostly secured by land and buildings.*