As filed with the Securities and Exchange Commission on August 4, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

Or

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2006

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Or

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring the shell company report

Commission file number: 001-31609

TELKOM SA LIMITED

(Exact name of Registrant as specified in its charter)

THE REPUBLIC OF SOUTH AFRICA

(Jurisdiction of incorporation or organization)

Telkom Towers North
152 Proes Street
Pretoria 0002
The Republic of South Africa
(27)(12)311-3566

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing four (4) Ordinary Shares, par value R10 per share	New York Stock Exchange, Inc.
Ordinary Shares, par value R10 per share	New York Stock Exchange, Inc.*

*Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares, par value R10 per share	521,408,318
Class A Ordinary Share, par value R10 per share	1
Class B Ordinary Share, par value R10 per share	1

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[x] Yes [ ] No

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

[ ] Yes [x] No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[x] Yes [ ] No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark which financial statement item the Registrant has elected to follow.

[ ] Item 17 [x] Item 18

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [x] No

EXPLANATORY NOTE

The consolidated financial statements of the Telkom Group and Vodacom as of and for the years ended March 31, 2005 and 2004, including the applicable notes thereto, contained in Item 18. "Financial Statements" of this Annual Report on Form 20-F and the consolidated financial information of the Telkom Group and Vodacom as of and for the years ended March 31, 2005 and 2004 contained herein have been restated from those financial statements previously presented to reflect a change in accounting policy and certain restatements. The consolidated financial statements and related financial information of the Telkom Group and Vodacom as of and for each of the years ended March 31, 2003 and 2002 cannot be provided on a restated basis without unreasonable effort or expense. The Telkom Group has not amended, and does not intend to amend, its previously filed Annual Reports on Form 20-F for the years affected by the change in accounting policy and restatements that ended prior to the year ended March 31, 2006. For this reason, those prior Annual Reports and the consolidated financial statements and applicable notes thereto, auditors' reports and related financial information contained in such reports should no longer be relied upon. For a description of the change in accounting policy and restatements, see Item 5. "Operating and Financial Review and Prospects," note 2 of the notes to the audited consolidated financial statements of the Telkom Group and note 23 of the notes to the audited consolidated financial statements of Vodacom included herein.

Unless the context requires otherwise, references to "we," "us," "our" and the "Telkom Group" in this annual report refer to Telkom SA Limited and its subsidiaries and its 50% interest in Vodacom, and references to "Telkom" in this annual report refer only to Telkom SA Limited. References to "Vodacom" in this annual report refer to Telkom's 50% owned joint venture, Vodacom Group (Pty) Limited, and its subsidiaries. We do not control Vodacom, the management of which requires consensus agreement among its shareholders who are party to Vodacom's joint venture agreement.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Many of the statements included in this annual report, as well as oral statements that may be made by us or by officers, directors or employees acting on behalf of us, constitute or are based on forward looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, specifically Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, including, among others, statements regarding our future financial position and plans, strategies, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward looking statements. Forward looking statements can generally be identified by the use of terminology such as "may," "will," "should," "expect," "envisage," "intend," "plan," "project," "estimate," "anticipate," "believe," "hope," "can," "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking.

These forward looking statements involve a number of known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward looking statements. Among the factors that could cause our actual results or outcomes to differ materially from our expectations are those risks identified in Item 3. "Key Information–Risk Factors," including, but not limited to, increased competition in the South African telecommunications market; developments in the regulatory environment; continued mobile growth and reductions in Vodacom's and Telkom's net interconnect margins; Vodacom's and Telkom's ability to expand their operations and make investments and acquisitions in other African countries and the general economic, political, social and

legal conditions in South Africa and in other countries where Vodacom and Telkom invest; our ability to attract and retain key personnel; our inability to appoint a majority of Vodacom's directors and the consensus approval rights at Vodacom may limit our flexibility and ability to implement our preferred strategies; Vodacom's continued payment of dividends or distributions to us; our ability to improve and maintain our management information and other systems; our negative working capital; changes in technology and delays in the implementation of new technologies; our ability to reduce theft, vandalism, network and payphone fraud and lost revenue to non-licensed operators; our ability to improve our internal control over financial reporting; health risks to related mobile handsets, base stations and associated equipment; risks related to our control by the Government of the Republic of South Africa and major shareholders and the South African Government's other positions in the telecommunications industry; the outcome of regulatory, legal and arbitration proceedings, including tariff approvals, and the outcome of Telkom's hearings before the Competition Commission, its proceedings with Telcordia Technologies Incorporated and others; our ability to negotiate favorable terms, rates and conditions for the provision of interconnection services and facilities leasing services; our ability to implement and recover the substantial capital and operational costs associated with carrier pre-selection, number portability and the monitoring, interception and customer registration requirements contained in the South African Regulation of Interception of Communications and Provisions of Communication-Related Information Act; Telkom's ability to comply with the South African Public Finance Management Act and South African Public Audit Act and the impact of the Municipal Property Rates Act; fluctuations in the value of the Rand; the impact of unemployment, poverty, crime and HIV infection, labor laws and exchange control restrictions in South Africa; and other matters not yet known to us or not currently considered material by us.

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA OF THE TELKOM GROUP

The following table sets forth selected historical consolidated financial and other data of the Telkom Group as of and for each of the periods set forth therein. Information in the following table includes our 50% interest in the results, assets, liabilities and equity of Vodacom, which we proportionately consolidate. Unless otherwise indicated, fixed-line statistical data is derived from the results of operations of our fixed-line segment, which provides fixed-line voice and data communications services through Telkom; directory services through our 64.9% owned subsidiary, Telkom Directory Services; and wireless data services through our wholly owned subsidiary, Swiftnet.

The Telkom Group's consolidated financial information discussed below reflects the following changes to the basis of preparation:

- the early adoption of revised IAS19, which is applicable for the financial year beginning on or after January 1, 2006;
- the adoption of revised and new IAS16, IAS17, IAS24, IAS40, IFRS4 and IFRIC1, which are applicable for financial years beginning on or after January 1, 2005;
- a voluntary change in accounting policy to recognize fixed-line installation and activation revenues and related costs systematically over the expected duration of customer relationships in line with other global communications companies, as opposed to the recognition of such revenues and related costs when the installation and activation of customers occurs, the method previously used in the Telkom Group's consolidated financial statements for the 2005 and 2004 financial years (both methods are permitted under IAS18); and
- restatements for changes to the previous accounting methods for certain lease payments and receipts under operating leases, and accounting disclosures for investment properties, information technology software items and financial assets and liabilities previously reported in the Telkom Group's consolidated financial statements for the 2005 and 2004 financial years.

For a more detailed description of these items, please refer to Item 5. "Operating and Financial Review and Prospects" and note 2 of the notes to the audited consolidated financial statements of the Telkom Group and note 23 of the notes to the audited consolidated financial statements of Vodacom included in this annual report.

The selected financial information presented below as of and for the years ended March 31, 2005 and 2004 has been restated to reflect such change in accounting policy and restatements. The consolidated financial statements and related financial information of the Telkom Group and Vodacom as of and for each of the years ended March 31, 2003 and 2002 cannot be provided on a restated basis without unreasonable effort or expense. The Telkom Group has not amended, and does not intend to amend, its previously filed Annual Reports on Form 20-F for the years affected by

the change in accounting policy and restatements that ended prior to the year ended March 31, 2006. For this reason, those prior Annual Reports and the consolidated financial statements and applicable notes thereto, auditors' reports and related financial information contained in such reports should no longer be relied upon.

The following selected historical consolidated financial data of the Telkom Group as of and for each of the three years ended March 31, 2006 was extracted from the Telkom Group's consolidated financial statements included in this annual report, which have been audited by Ernst & Young, Registered Accountants and Auditors, Chartered Accountants (SA).

The consolidated financial statements of the Telkom Group have been prepared in accordance with International Financial Reporting Standards, or IFRS, which differs in certain respects from US Generally Accepted Accounting Principles, or US GAAP. For a description of the principal differences between IFRS and US GAAP relevant to the consolidated financial statements of the Telkom Group and a reconciliation to US GAAP of net income and shareholders' equity, see note 44 of the notes to the audited consolidated financial statements of the Telkom Group as of and for each of the three years ended March 31, 2006 included in this annual report.

EBITDA represents profit for the year before taxation, finance charges, investment income and depreciation, amortization, impairment 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. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or 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 table below.

Fixed access lines are comprised of public switched telecommunications network lines, or PSTN lines, including integrated services digital network channels, or ISDN channels, and public and private payphones, but excluding internal lines in service. We calculate fixed-line penetration, or teledensity, based on the total number of telephone lines in service at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid year in the periods indicated as published by Statistics South Africa, a South African governmental department. We calculate fixed-line traffic, other than international outgoing mobile traffic, international interconnection traffic and international voice over internet protocol traffic, by dividing traffic operating revenue for the particular category by the weighted average tariff for such category during the relevant period. Fixed-line international outgoing mobile traffic and international interconnection traffic are based on the traffic registered through the respective exchanges and reflected in international interconnection invoices. International voice over internet protocol traffic is based on the traffic reflected in invoices. We calculate revenue per fixed access line by dividing total fixed-line revenue during the period, excluding data and directories and other revenue, by the average number of fixed access lines during the period. We calculate our number of fixed lines per fixed-line employee on the basis of fixed access lines in service at period end divided by the number of employees of Telkom at period end.

Rand amounts as of and for the year ended March 31, 2006 have been translated into Dollars solely for your convenience at R6.15 per $1.00, the Rand noon buying rate discussed in Item 3. “Key Information–Exchange Rates” on March 31, 2006, the date of the Telkom Group’s most recent consolidated balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into US dollars at these rates or at all.

You should read the following information together with Item 3. “Key Information–Risk Factors,” Item 5. “Operating and Financial Review and Prospects” and the consolidated financial statements and the notes thereto of the Telkom Group and Vodacom Group included in this annual report.

THE TELKOM GROUP

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions, except per share amounts)			
Income Statement Data				
Amounts in accordance with IFRS				
Operating revenue	**40,582**	**43,160**	**47,625**	**7,744**
Other income [(1)]	**255**	**280**	**480**	**78**
Operating expenses	**(31,499)**	**(32,179)**	**(33,428)**	**(5,435)**
Employee expenses [(2)]	(7,408)	(8,111)	(7,489)	(1,218)
Payments to other operators	(5,985)	(6,132)	(6,826)	(1,110)
Selling, general and administrative [(3)]	(7,665)	(8,824)	(10,273)	(1,670)
Services rendered	(2,269)	(2,021)	(2,114)	(344)
Operating leases	(924)	(803)	(850)	(138)
Depreciation, amortization, impairments and write-offs [(4)]	(7,248)	(6,288)	(5,876)	(955)
Operating profit	**9,338**	**11,261**	**14,677**	**2,387**
Investment income	322	350	397	64
Finance charges	(3,264)	(1,695)	(1,233)	(200)
Profit before tax	**6,396**	**9,916**	**13,841**	**2,251**
Taxation	(1,738)	(3,082)	(4,520)	(735)
Profit for the year	**4,658**	**6,834**	**9,321**	**1,516**
Attributable to:				
Equity holders of Telkom	4,589	6,751	9,182	1,493
Minority Interest	69	83	139	23
Weighted average number of ordinary shares outstanding				
Basic	557	541	526	526
Diluted	557	543	529	529
Earnings per share (cents)				
Basic	823.9	1,246.7	1,744.7	283.7
Diluted	823.9	1,244.3	1,735.2	282.1
Dividends per share (cents)	**90.0**	**110.0**	**900.0**	**146.3**
Amounts in accordance with US GAAP				
Operating revenue	30,541	30,887	32,035	5,209
Operating income	6,853	8,123	10,278	1,671
Net income	4,215	6,191	8,867	1,442
Earnings per share (cents)				
Basic	756.7	1,143.3	1,684.9	273.9
Diluted	756.7	1,141.1	1,675.7	272.5

	As of March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Balance Sheet Data				
Amounts in accordance with IFRS				
Total assets	**53,174**	**57,597**	**57,544**	**9,357**
Current assets	11,423	15,045	12,731	2,070
Cash and cash equivalents	3,218	3,210	4,948	805
Other current assets	8,205	11,835	7,783	1,265
Non-current assets	41,751	42,552	44,813	7,287
Total liabilities[5]	**31,346**	**31,236**	**28,078**	**4,566**
Current liabilities [6]	14,639	17,366	15,687	2,551
Short-term debt [6]	4,473	5,408	4,161	677
Other current liabilities	10,166	11,958	11,526	1,874
Non-current liabilities [7]	16,707	13,870	12,391	2,015
Long-term debt[7]	12,703	9,504	7,655	1,245
Other non-current liabilities	4,004	4,366	4,736	770
Total equity	**21,828**	**26,361**	**29,466**	**4,791**
Attributable to:				
Equity holders of Telkom	21,628	26,141	29,165	4,742
Minority interest	200	220	301	49
Amounts in accordance with US GAAP				
Total assets	47,940	50,592	49,828	8,102
Total liabilities	27,179	25,930	22,513	3,660
Shareholders' equity	20,608	24,507	27,156	4,416

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Cash Flow Data				
Amounts in accordance with IFRS				
Cash flow from operating activities	13,884	15,711	9,506	1,546
Cash flow used in investing activities	(5,423)	(6,306)	(7,286)	(1,185)
Cash flow used in financing activities	(6,481)	(9,897)	(258)	(42)
Other Data				
Amounts in accordance with IFRS				
EBITDA [8]	16,586	17,549	20,553	3,342
Total debt (at period end) [5][9]	17,176	14,912	11,816	1,921
Capital expenditures excluding intangibles	4,936	4,464	6,310	1,026
Capital expenditures including intangibles	5,368	5,851	7,506	1,220

	Year ended March 31,				
	2002	2003	2004	2005	2006
	RESTATED	RESTATED	RESTATED	RESTATED	
Fixed-Line Statistical Data					
Fixed access lines (thousands) (at period end) [10]	**4,762**	**4,709**	**4,680**	**4,726**	**4,708**
Postpaid[10]					
PSTN[11]	3,435	3,197	3,048	3,006	2,996
ISDN channels	424	516	601	664	693
Prepaid	708	817	856	887	854
Payphones [12]	195	179	175	169	165
Fixed-line penetration rate (%) (at period end) [10]	**10.7**	**10.4**	**10.1**	**10.1**	**10.0**
Revenue per fixed access line (ZAR) [10]	**4,882**	**5,157**	**5,341**	**5,250**	**5,304**
Total fixed-line traffic (millions of minutes) [13]	**33,084**	**32,868**	**32,942**	**31,706**	**31,015**
Local	20,538	20,396	20,547	19,314	18,253
Long distance	4,747	4,728	4,616	4,453	4,446
Fixed-to-mobile	4,364	4,135	3,980	3,911	4,064
International outgoing	374	439	427	415	515
International voice over internet protocol	–	–	25	89	83
Interconnection	3,061	3,170	3,347	3,524	3,654
Data Communications Services (at period end)					
Managed network sites	5,684	7,729	9,061	11,961	16,887
Internet dial-up subscribers	48,995	98,690	142,208	202,410	228,930
Internet ADSL subscribers	–	–	8,559	22,870	53,997
Internet satellite subscribers	–	–	192	1,427	1,981
Total ADSL subscribers [14]	–	2,632	20,145	58,278	143,509
Number of full-time, Telkom employees (at period end) [15]	**39,444**	**35,361**	**32,358**	**28,972**	**25,575**
Fixed-lines per Telkom employee (at period end) [10][15]	121	133	145	163	184

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

(2) Employee expenses include workforce reduction expenses of R88 million, R961 million and R302 million in the years ended March 31, 2006, 2005 and 2004, respectively.

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

(4) Depreciation, amortization, impairments and write-offs include costs in respect of write-offs of R188 million, R210 million and R201 million in the 2006, 2005 and 2004 financial years, respectively.

(5) As of March 31, 2006, R4.3 billion of our debt was guaranteed by the Government of the Republic of South Africa.

(6) Includes short-term portion of finance leases and utilized credit facilities.

(7) Includes long-term portion of finance leases.

(8) EBITDA can be reconciled to profit for the year as follows:

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
EBITDA	**16,586**	**17,549**	**20,553**	**3,342**
Depreciation, amortization, impairments and write-offs	(7,248)	(6,288)	(5,876)	(955)
Investment income	322	350	397	64
Finance charges	(3,264)	(1,695)	(1,233)	(200)
Taxation	(1,738)	(3,082)	(4,520)	(735)
Profit for the year	**4,658**	**6,834**	**9,321**	**1,516**
Attributable to:				
Equity holders of Telkom	4,589	6,751	9,182	1,493
Minority interest	69	83	139	23

(9) Includes short-term and long-term debt, finance lease obligations and utilized credit facilities.

(10) Fixed access lines are comprised of PSTN lines, including ISDN lines and payphones, but excluding Telkom internal lines in service. Each analog PSTN line includes one access channel, each basic ISDN line includes two access channels and each primary ISDN line includes 30 access channels. Fixed-line revenue has been restated in the periods prior to the 2006 financial year to recognize installation and activation revenues over their expected duration of the customer's relationship. Restated revenue for the 2002 and 2003 financial years is unaudited.

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

(12) Includes public and private payphones.

(13) Traffic includes internet traffic.

(14) Excludes Telkom internal ADSL services of 249, 254, 168 and 37 as of March 31, 2006, 2005, 2004 and 2003, respectively.

(15) Includes employees of Telkom only.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA OF VODACOM GROUP

The following table sets forth selected consolidated financial and other data of Vodacom as of and for each of the periods set forth therein. Information in the Vodacom table reflects 100% of Vodacom's results of operations. Unless otherwise indicated, information with respect to Vodacom's other African operations in the Vodacom table reflects 100% of the operations of Vodacom's subsidiaries in Lesotho, Tanzania and Mozambique. Vodacom Congo was fully consolidated as a subsidiary in Vodacom's consolidated financial statements effective April 1, 2004 after certain clauses granting the outside shareholders participating rights had been removed from the Vodacom Congo shareholders agreement. As a result, unless otherwise indicated, information with respect to Vodacom Congo in the table reflects Vodacom's 51% interest in Vodacom Congo that was proportionately consolidated in Vodacom's consolidated financial statements in the year ended March 31, 2004 and 100% of Vodacom Congo in the years ended March 31, 2006 and 2005. We proportionately consolidate our 50% interest in Vodacom in the Telkom Group's consolidated financial statements. Vodacom's other operating income, direct network operating costs, depreciation, staff expenses, marketing and advertising expenses, general administration expenses, amortization of intangible assets and integration costs, disposal of operations and impairments are presented as separate line items in Vodacom's consolidated financial statements, but have been combined under the heading "operating expenses" in the table set forth below.

Vodacom's consolidated financial information discussed below reflects the following changes to the basis of preparation:

- the early adoption of revised and new IAS19 and IFRIC4, which are applicable for the financial year beginning on or after January 1, 2006;
- the adoption of revised and new IAS16, IAS17, IAS40, IFRS4 and IFRIC1, which are applicable for financial years beginning on or after January 1, 2005;
- restatements for changes to the previous accounting methods for certain lease payments and receipts under operating leases, and accounting disclosures for investment properties, information technology software items and financial assets and liabilities previously reported in Vodacom's consolidated financial statements for the 2005 and 2004 financial years.

For a more detailed description of these items, please refer to Item 5. "Operating and Financial Review and Prospects" and note 23 of the notes to the audited consolidated financial statements of Vodacom included in this annual report.

The selected financial information presented below and the audited consolidated financial statements as of and for each of the three years ended March 31, 2006 reflect the above described restatements. The selected financial information and consolidated financial statements as of and for each of the two years ended March 31, 2003 have not been presented as these cannot be provided on a restated basis, without unreasonable effort or expense. The Telkom Group has not amended, and does not intend to amend, its previously filed Annual Reports on Form 20-F for the years affected by the restatements that ended prior to March 31, 2006. For this reason, those prior Annual Reports and the consolidated financial statements and applicable notes thereto, and related financial information contained in such reports should not be relied upon.

The following selected historical consolidated financial data of Vodacom as of and for each of the three years ended March 31, 2006 have been extracted from Vodacom's consolidated financial statements included in this annual report, which were audited by Deloitte & Touche, Registered Accountants and Auditors, Chartered Accountants (SA).

The consolidated financial statements of Vodacom have been prepared in accordance with IFRS, which differs in certain respects from US GAAP. For a description of the principal differences between IFRS and US GAAP relevant to the financial statements of Vodacom and a reconciliation to US GAAP of net income and shareholders' equity, see note 45 of the notes to the audited consolidated financial statements of Vodacom as of and for each of the three years ended March 31, 2006 included in this annual report.

EBITDA represents net profit before taxation, finance charges, investment income and depreciation, amortization and impairments. 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. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or 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.

Vodacom's customer totals are based on the total number of customers registered on Vodacom's network, which have not been disconnected, including inactive customers, as of the end of the period indicated. See Item 4. "Information on the Company–Business Overview–Mobile Communications–South Africa–Customers" for a discussion of Vodacom's procedures with respect to disconnections and inactive customers. Vodacom's churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period. Vodacom's South African market share is derived from Vodacom's total customers, MTN's total estimated mobile customers and Cell C's total estimated mobile customers. Vodacom calculates penetration, or teledensity, based on the total number of customers at the end of the period per 100 persons in the population of South Africa. Population is the estimated South African population at the mid-year in the periods indicated as published by Statistics South Africa, a South African governmental department. Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls. Vodacom's average monthly revenue per customer, or ARPU, is calculated by dividing the average monthly revenue during the period by the average monthly total reported customer base during the period. ARPU excludes revenue from equipment sales, other sales and services and revenue from national and international users roaming on Vodacom's networks. Vodacom's average monthly minutes of use per customer, or average MOU, is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes. Cumulative network capital expenditure per customer is the cumulative network capital expenditure since the launch of Vodacom's South African network divided by Vodacom's average customers in South Africa for the period.

Rand amounts as of and for the year ended March 31, 2006 have been translated into Dollars solely for your convenience at R6.15 per $1.00, the Rand noon buying rate discussed in Item 3. "Key Information–Exchange Rates," on March 31, 2006, the date of Vodacom's most recent balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into US dollars at these rates or at all.

You should read the following information together with Item 3. "Key Information–Risk Factors," Item 5. "Operating and Financial Review and Prospects" and the consolidated financial statements and the notes thereto of the Telkom Group and Vodacom Group included in this annual report.

VODACOM GROUP

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Income Statement Data				
Amounts in accordance with IFRS				
Revenue	**22,855**	**27,315**	**34,043**	**5,535**
Operating expenses (1)	**(17,630)**	**(20,837)**	**(25,177)**	**(4,094)**
Operating profit (2)	**5,225**	**6,478**	**8,866**	**1,441**
Interest, dividends and other financial income	657	663	659	107
Finance cost	(1,108)	(642)	(1,318)	(214)
Profit before tax	**4,774**	**6,499**	**8,207**	**1,334**
Taxation	(1,722)	(2,613)	(3,078)	(500)
Net profit	**3,052**	**3,886**	**5,129**	**834**
Attributable to:				
Equity shareholders	3,026	3,855	5,012	815
Minority interest	26	31	117	19
Amounts in accordance with US GAAP				
Net profit for the year	2,990	3,770	4,765	775

	As of March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Balance Sheet Data				
Amounts in accordance with IFRS				
Total assets	**20,174**	**22,595**	**24,768**	**4,027**
Current assets	7,323	8,706	8,689	1,413
Cash and cash equivalents	2,370	3,990	3,146	512
Other current assets	4,953	4,716	5,543	901
Non-current assets	12,851	13,889	16,079	2,614
Total liabilities	**12,570**	**14,707**	**16,096**	**2,617**
Current liabilities	10,252	11,474	13,859	2,253
Short-term debt (3)	1,617	2,203	3,036	493
Other current liabilities	8,635	9,271	10,823	1,760
Non-current liabilities	2,318	3,233	2,237	364
Long-term debt (4)	1,217	2,214	819	133
Other non-current liabilities	1,101	1,019	1,418	231
Total equity	**7,604**	**7,888**	**8,672**	**1,410**
Attributable to:				
Equity shareholders of Vodacom	7,511	7,759	8,389	1,364
Minority interest	93	129	283	46
Amounts in accordance with US GAAP				
Shareholders' equity	6,728	6,882	7,257	1,180

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Cash Flow Data				
Amounts in accordance with IFRS				
Cash flow from operating activities	4,790	4,150	4,501	732
Cash flow used in investing activities	(3,000)	(3,374)	(4,791)	(779)
Cash flow used in financing activities	(798)	(195)	(108)	(18)
Other Data				
Amounts in accordance with IFRS				
EBITDA (2) (5)	7,757	9,590	11,809	1,920
Total debt (at period end) (6)	2,833	4,417	3,855	627
Capital expenditures excluding intangibles	2,891	3,288	4,699	764
South Africa	1,659	2,617	3,977	647
Other African countries	1,232	671	722	117
Capital expenditures including intangibles	3,012	3,494	5,142	836
South Africa	1,666	2,800	4,400	715
Other African countries	1,346	694	742	121

	Year ended March 31,				
	2002	2003	2004	2005	2006
Statistical Data					
South Africa					
Total mobile customers (thousands) (at period end) (7)	**6,557**	**7,874**	**9,725**	**12,838**	**19,162**
Contract	1,090	1,181	1,420	1,872	2,362
Prepaid	5,439	6,664	8,282	10,941	16,770
Community services telephones	28	29	23	25	30
Total inactive mobile customers (%) (at period end) (8)	**n/a**	**n/a**	**n/a**	**7.9**	**8.7**
Contract	n/a	n/a	n/a	1.5	2.4
Prepaid	n/a	n/a	n/a	9.0	9.6
Mobile churn (%) (9)	**27.2**	**30.4**	**36.6**	**27.1**	**17.7**
Contract	14.5	11.9	10.1	9.1	10.0
Prepaid	30.1	34.0	41.3	30.3	18.8
Mobile market share (%) (at period end)	**61**	**57**	**54**	**56**	**58**
Mobile penetration (%) (at period end)	**24.2**	**30.2**	**39.0**	**49.5**	**70.6**
Total mobile traffic (millions of minutes) (10)	**n/a**	**n/a**	**12,172**	**14,218**	**17,066**
Outgoing	n/a	n/a	7,647	9,231	11,354
Incoming	n/a	n/a	4,525	4,987	5,712
Mobile ARPU (ZAR)	**182**	**183**	**177**	**163**	**139**
Contract	560	629	634	624	572
Prepaid	93	90	90	78	69
Community services	1,719	1,861	2,155	2,321	1,796

	Year ended March 31,				
	2002	2003	2004	2005	2006
Average MOU	**111**	**101**	**96**	**84**	**74**
Contract	264	269	263	226	206
Prepaid	58	54	56	52	49
Community services	3,354	3,162	3,061	3,185	2,327
Cumulative capital expenditure per customer (ZAR) (at period end)	**1,991**	**1,933**	**1,720**	**1,515**	**1,257**
Number of mobile employees (at period end) (11)	**3,859**	**3,904**	**3,848**	**3,919**	**4,305**
Number of mobile customers per mobile employee (at period end) (11)	**1,699**	**2,017**	**2,527**	**3,276**	**4,451**
Other African countries *(12)*					
Total mobile customers (thousands) (at period end) (7)	**306**	**773**	**1,492**	**2,645**	**4,358**
Lesotho	56	78	80	147	206
Tanzania	229	447	684	1,201	2,091
Democratic Republic of the Congo	21	248	670	1,032	1,571
Mozambique	n/a	n/a	58	265	490
Churn (%) (9)					
Lesotho	26.5	70.6	65.1	17.3	22.3
Tanzania	4.8	13.3	30.0	29.6	28.5
Democratic Republic of Congo	n/a	24.2	20.2	23.1	28.1
Mozambique	n/a	n/a	0.3	11.3	32.2
Gross connections (thousands)					
Lesotho	45	76	51	70	98
Tanzania	154	262	404	746	1,353
Democratic Republic of the Congo	21	260	513	565	892
Mozambique	n/a	n/a	58	225	342
Penetration (%) (at period end) (13)					
Lesotho	2.6	4.3	5.1	7.4	12.9
Tanzania	1.1	2.2	3.3	5.1	9.2
Democratic Republic of the Congo	0.3	1.0	2.3	3.5	5.5
Mozambique	n/a	n/a	2.6	4.2	8.4
ARPU					
Lesotho (ZAR)	144	104	125	92	78
Tanzania (ZAR)	305	217	128	81	67
Democratic Republic of the Congo (ZAR)	n/a	200	150	98	86
Mozambique (ZAR)	n/a	n/a	110	52	36
Number of employees (at period end) (11)	**494**	**502**	**761**	**1,074**	**1,154**
Lesotho	71	74	68	63	67
Tanzania	188	224	316	350	438
Democratic Republic of the Congo	235	204	334	538	479
Mozambique	n/a	n/a	43	123	170
Number of mobile customers per mobile employee (at period end) (11)	**619**	**1,540**	**1,961**	**2,463**	**3,776**

(1) Includes other income of R125.1 million, R63.8 million and R57.6 million in the years ended March 31, 2006, 2005 and 2004, respectively.

(2) Operating profit and EBITDA in the 2005 financial year included an impairment of R268 million in respect of assets in Mozambique and a reversal of the impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets.

(3) Includes short-term portion of finance leases, shareholder loans and non-interest bearing debt, as well as utilized credit facilities.

(4) Includes long-term portion of finance leases.

(5) EBITDA can be reconciled to net profit as follows:

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
EBITDA	**7,757**	**9,590**	**11,809**	**1,920**
Depreciation, amortization and impairments	(2,532)	(3,112)	(2,943)	(479)
Interest, dividends and other financial income	657	663	659	107
Finance costs	(1,108)	(642)	(1,318)	(214)
Taxation	(1,722)	(2,613)	(3,078)	(500)
Net profit	**3,052**	**3,886**	**5,129**	**834**
Attributable to:				
Equity shareholders of Vodacom	3,026	3,855	5,012	815
Minority interest	26	31	117	19

(6) Includes interest bearing and non-interest bearing debt, shareholder loans and utilized credit facilities.

(7) Includes inactive customers.

(8) Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. In the 2005 financial year, a software error was identified in the calculation of inactive customers. Vodacom has corrected inactive customers as of March 31, 2005. Information for prior years is unavailable.

(9) Vodacom's contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment. Prepaid customers in South Africa were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers in South Africa to align itself with European and industry standards. From December 2003, prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days. For other African countries, each subsidiary has its own disconnection rule to disconnect inactive prepaid customers. Vodacom Lesotho disconnects its prepaid customers at the expiration of time window lock of 210 days. Vodacom Tanzania, Vodacom DRC and Vodacom Mozambique disconnect their prepaid customers if they record no revenue generating activity within a period of 215 consecutive days. See "Item 4."Information on the Company–Business Overview–Mobile communications" and "Information on the Company–History and development of the Company–Recent Developments–Vodacom's change in South African definition of active customers."

(10) Vodacom has changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 and 2004 financial years. Information for prior years is unavailable.

(11) Vodacom had a total of 469,183, 280 and 219 temporary employees as of March 31, 2006, 2005, 2004, and 2003, respectively. Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees.

(12) Includes 100% of Vodacom's operations in the Democratic Republic of the Congo.

(13) Penetration calculations are Vodacom estimates.

DIVIDENDS AND DIVIDEND POLICY

All of Telkom's issued and outstanding ordinary shares, including the class A ordinary share and the class B ordinary share, rank equal for dividends. No dividend may be declared to a holder of the class A ordinary share or class B ordinary share, unless the same dividend is declared to holders of all ordinary shares. The following table sets forth information with respect to dividends paid by Telkom. Dividends are expressed in Rands and translated, solely for the convenience of the reader, into Dollars at the Rand noon buying rate described in Item 3. "Key Information–Exchange Rates" below on the relevant dividend payment date. The actual rate that cash dividends are converted to Dollars by the depositary may not equal the Rand noon buying rate on the dividend payment date.

	Dividends paid per Ordinary Share		Dividends paid per ADS		Total dividends (millions)		Dividend cover (1)
Year ended March 31,	ZAR	USD	ZAR	USD	ZAR	USD	Cover
2006(2)	9.00(3)	1.46(3)	36.00(3)	5.85(3)	4,801.2(3)	780.7(3)	1.9x
2005(4)	1.10(5)	0.18(5)	4.40(5)	0.72(5)	606.7(5)	100.1(5)	11.1x
2004(6)	0.90(7)	0.14(7)	3.60(7)	0.56(7)	501.3(7)	79.3(7)	9.2x
2003	–	–	–	–	–	–	n/a
2002	–	–	–	–	–	–	n/a

(1) Dividend cover is calculated by dividing profit for the year attributable to equity holders of Telkom by the dividend for the year.

(2) Based on 533,465,571 shares outstanding. As of March 31, 2006, 23,536,579 of the 544,944,899 issued shares were held by Telkom and its subsidiaries.

(3) Includes a 2005 financial year final ordinary dividend No. 10 of R4.00 per share and a special dividend of R5.00 per share that was paid on July 8, 2005 to shareholders registered as of July 1, 2005.

(4) Based on 551,509,083 shares outstanding. As of March 31, 2005, 23,566,248 of the 557,031,819 issued shares were held by Telkom and its subsidiaries.

(5) Paid on July 9, 2004.

(6) Based on 557,031,819 shares outstanding. As of March 31, 2004, 3,185,736 of the 557,031,819 issued shares were held by Telkom and its subsidiaries.

(7) Special dividend.

On June 2, 2006, Telkom's board of directors declared a 2006 financial year final ordinary dividend No. 11 of R5.00 per share and a special dividend of R4.00 per share to be paid on July 14, 2006 to shareholders registered as of July 7, 2006, which are not included in the table.

Telkom did not declare any dividends in the two years ended March 31, 2003 prior to its initial public offering in order to repay debt and reinvest profits in its fixed-line network modernization, rehabilitation and line-rollout program.

We cannot assure you that any dividend will actually be paid in the future or what the timing or amount of any future dividends will be. Telkom's current dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to enable us to achieve our strategy. Telkom may revise its dividend policy from time to time. The determination to pay dividends, and the amount of the dividends, will depend upon, among other things, the following:

- our earnings;
- our financial condition;
- our capital requirements;
- the availability of cash and sustainability;

- the impact of currency exchange rate and inflation fluctuations;
- general business conditions and strategies and other investment opportunities;
- contractual restrictions on the payment of dividends;
- the possible effects on our credit worthiness;
- the pay-out and dividend ratios of other major South African companies and other communications providers;
- dividends received from Vodacom; and
- other factors our board of directors may deem relevant, including future growth prospects.

Under South African law, a company may make payments to its shareholders if authorized thereto by its organizational documents. A company may not make any payment, in whatever form, to its shareholders if there are reasonable grounds for believing that:

- the company is or would, after the payment, be unable to pay its debts as they become due in the ordinary course of business; or
- the consolidated assets of the company fairly valued, after the payment, would be less than the consolidated liabilities of the company.

Under South African law, a shareholder is liable to a company for any payments received by the shareholder from the company in violation of these restrictions.

Pursuant to Telkom's memorandum and articles of association, for so long as the Government of the Republic of South Africa is a significant shareholder, Telkom's dividend policy and all declarations of dividends and payments to shareholders must be approved by at least two of the directors appointed by the Government. Pursuant to Telkom's memorandum and articles of association, the Government is a significant shareholder for so long as it holds the class A ordinary share and at least 15% of Telkom's issued ordinary shares. This percentage is to be reduced from time to time to reflect the dilutive effect of issuances of new ordinary shares, but may not be less than 10%.

Telkom's ability to make future dividend payments will be determined based upon its financial position under IFRS. The following table sets forth a reconciliation of retained earnings in accordance with IFRS to distributable reserves in accordance with IFRS for the periods indicated.

	Year ended March 31,			
	2004	2005	2006	2006
	ZAR	ZAR	ZAR	USD
	RESTATED	RESTATED		
	(in millions)			
Retained earnings of Telkom Group in accordance with IFRS	13,482	19,231	22,896	3,723
Share of retained earnings of Vodacom	(3,918)	(4,029)	(4,284)	(697)
Distributable reserves in accordance with IFRS	**9,564**	**15,202**	**18,612**	**3,026**

The distribution of retained earnings of Vodacom is restricted, as Telkom requires the consent of the other shareholder of Vodacom to declare dividends. As described in Item 10. "Additional Information–Taxation," Telkom is required to pay secondary tax on companies at a flat rate of 12.5% in respect of the amount of certain dividends declared by it net of any dividends received from our joint venture and certain subsidiaries. As a result of the payment of secondary tax on companies, the amount of dividends that may actually be paid is less than the amount of distributable reserves. Distributable reserves are available for distribution based on Telkom's dividend policy. Telkom's board

of directors decides the amount of distributable reserves to be reinvested in operations and the amount of any remaining funds that are available for distribution to shareholders or possible share repurchases.

Telkom expects to pay any cash dividends solely in Rands. Cash dividends payable to holders of American Depository Shares, or ADSs, listed on the New York Stock Exchange will be paid to the depositary's custodian, which will convert the dividends into Dollars, at the rate of exchange applicable on the date such dividends are paid, for disbursement to holders. Fluctuations in the exchange rate between Rands and Dollars and expenses of the depositary will affect the Dollar amounts actually received by holders of ADSs upon conversion by the depositary of such cash dividends.

Provided that the relevant share certificate is endorsed "non-resident" or an entry is made to such effect in the relevant electronic register, there is currently a blanket approval under the South African exchange control regulations for the free transferability of cash dividends to holders of ordinary shares or ADSs. See Item 10. "Additional Information–Exchange Controls."

In addition to the corporate tax on taxable income of South African companies at a rate of 30% for the 2005 financial year and 29% for the 2006 financial year, South African companies pay secondary tax on companies as described above. Capitalization shares or stock dividends distributed to holders of ordinary shares do not incur secondary tax on companies. Because of this tax treatment, it has become common practice in South Africa for companies to offer capitalization shares in lieu of cash dividends. Capitalization shares are shares issued by a company, the payment for which is allocated out of the company's reserves, including share premium, or unappropriated profits.

For a discussion of the material South African and US federal income tax provisions regarding the taxation of dividends on ordinary shares and ADSs, see Item 10. "Additional Information–Taxation."

Share Repurchases

As authorized by its shareholders at annual general meetings held on January 27, 2004, October 14, 2004 and October 21, 2005, Telkom is authorized to purchase up to 20% of its issued share capital. This authority is valid until Telkom's next Annual General Meeting, or for 15 months from the date of the resolution, whichever period is shorter.

As part of Telkom's commitment to the optimal use of capital, the Telkom board approved a R2 billion share buyback program on June 2, 2006.

In the year ended March 31, 2006, Telkom repurchased 12,086,920 of its ordinary shares at a volume weighted average price of R124.31 per share, including costs. These ordinary shares have been cancelled from the issued share capital by the Registrar of Companies.

Between August 3, 2004 and September 15, 2004 Rossal No 65 (Pty) Limited, or Rossal, a wholly owned subsidiary of Telkom, repurchased 9,531,454 shares at a volume weighted average price of R78.49 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan. On June 4, 2004, Telkom purchased Acajou (Pty) Limited, or Acajou, a wholly owned subsidiary of Telkom, for share repurchase activities other than repurchases for the Telkom conditional share plan. Between June 7, 2004 and September 30, 2004, Acajou purchased 10,849,058 shares at a volume weighted average price of R76.12 per share, including costs, which are also being held in treasury.

In the year ended March 31, 2004, Rossal repurchased 3,185,736 shares at a volume weighted averaged price of R74.58 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan.

In terms of the South African Companies Act, 61 of 1973, a subsidiary company may acquire up to 10% of the shares in its holding company and if the holding company acquires its own shares directly, such shares must be cancelled.

Telkom plans on continuing its share buy back strategy based on certain criteria. For additional information regarding Telkom's share repurchases, see Item 16E. "Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

Taxation

A share repurchase and subsequent cancellation of shares by a South African company is deemed to be a dividend in terms of the South African Income Tax Act, 58 of 1962, on the difference between the nominal value of the share and the value purchased, unless purchased from the share premium of the company that does not comprise capitalized profit. The tax on such a deemed dividend is payable by the company at a rate of 12.5%.

EXCHANGE RATES

Unless otherwise specified, as used in this annual report:

- references to "Rand," "R," "ZAR" and "SA Cents" are to South African Rand and Cents, the currency of the Republic of South Africa;
- references to "Dollars," "$," "USD" and "US Cents" are to the United States Dollar and Cents, the currency of the United States; and
- references to the "Rand noon buying rate" are to the noon buying rates in New York City for cable transfers in Rands as certified for customs purposes by the US Federal Reserve Bank of New York expressed in Rands per $1.00.

For your convenience, this annual report contains translations of certain Rand amounts into Dollars. You should not assume, however, that Rands could have been exchanged into Dollars at any particular rate or at all. Unless otherwise stated, translations of Rand amounts into Dollars have been made at R6.15 per $1.00, the Rand noon buying rate on March 31, 2006, the date of the Telkom Group's most recent balance sheet included in this annual report. These translations should not be construed as representations that the Rand amounts could actually be converted into US dollars at these rates or at all.

The table below shows the high, low, average and end of period Rand noon buying rates for the periods indicated. The end of period Rand noon buying rate is computed on the last business day of the relevant period and the average Rand noon buying rate is computed using the Rand noon buying rate on the last business day of each month during the period indicated.

Year ended March 31,	High	Low	Average	End of period
2002	13.60	7.91	9.64	11.38
2003	11.36	7.90	9.74	7.90
2004	8.24	6.26	7.17	6.32
2005	7.05	5.62	6.20	6.22
2006	6.90	5.96	6.43	6.15
December	6.46	6.28		
January	6.23	5.99		
February	6.22	6.02		
March	6.34	6.14		
2007				
April	6.17	5.99		
May	6.71	6.00		
June	7.43	6.63		
July	7.23	6.83		

On July 31, 2006, the Rand noon buying rate was R6.92 per $1.00.

Fluctuations in the exchange rate between the Rand and the Dollar will affect the Dollar amounts received by holders of American Depositary Shares, or ADSs, each representing four ordinary shares of Telkom, on conversion of dividends, if any, paid in Rands on the ordinary shares and may affect the Dollar trading price of the ADSs on the New York Stock Exchange.

RISK FACTORS

You should carefully consider the risks described below in conjunction with the other information and the consolidated financial statements of the Telkom Group and Vodacom and the related notes thereto included elsewhere in this annual report before making an investment decision with respect to Telkom's ordinary shares or ADSs.

Risks Related to our Business

Increased competition in the South African telecommunications market may result in a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline and our churn rates to increase.

Telkom had the exclusive right to provide public switched telecommunications services, including international telephone services, in the Republic of South Africa until May 7, 2002 and is currently the only provider of public switched telecommunications services in South Africa, but for a number of years has competed with mobile operators, value added network service operators, or VANS operators, Sentech Limited, formerly known as Sentech (Pty) Limited and referred to herein as Sentech, which was issued an international carrier of carriers license and a multi media license in May 2002, and with service providers who use least cost routing technology. In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, SNO Telecommunications (Pty) Limited, SNO-T, that is 30% owned by Transtel Limited, or Transtel, and Eskom Enterprises (Pty) Limited, or Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. ICASA issued this license on December 9, 2005, however, SNO-T is not expected to commence business activities until the second half of the 2006 calendar year. A process has also commenced to issue additional licenses to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5%. These are referred to as underserviced areas licensees, or USALs. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licenses to successful bidders in seven of them and has issued invitations to apply for licenses in the remaining 20. It is expected that further licenses will be issued in the 2006 calendar year.

In September 2004, the Minister of Communications issued determinations pursuant to which, since February 1, 2005:

- mobile cellular operators have been permitted to obtain fixed telecommunications links from parties other than Telkom;
- VANS operators and private network operators have been permitted to resell the telecommunications facilities that they obtain from Telkom;
- VANS operators have been permitted to allow their services for the carrying of voice, including voice over internet protocol;
- Telkom is no longer the sole provider of facilities to VANS operators; and
- licensing for the provision of payphone services has been expanded.

These determinations are incorporated in the Electronic Communications Act.

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the Telecommunications Act, 103 of 1996, however, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. The bill, renamed the Electronic Communications Bill, was passed by the Parliament of South Africa in December 2005 and signed by the President of South Africa on April 18, 2006. The Electronic Communications Act, No. 36 of 2005, came into effect on July 19, 2006. We expect that the new licensing framework included in the Electronic Communications Act will result in the market becoming more horizontally integrated with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business. In addition, the process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit.

We expect that the introduction of number portability and carrier pre-selection could further enhance competition and increase our churn rates. As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty through improved services and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

Competition from the three existing mobile communications network operators in South Africa has resulted in significant customer migration and call substitution from fixed-line to mobile services. If this customer migration and call substitution continues, our growth rates, operating revenue and net profit could decline.

Telkom competes for telephone customers with the three existing mobile communications network operators, Vodacom, Mobile Telephone Network Holdings (Pty) Limited, a wholly owned subsidiary of the MTN Group Limited, or MTN, a public company listed on the JSE Limited, or JSE, and Cell C (Pty) Limited, or Cell C, which recently announced that it would be entering into a joint venture with Virgin Mobile. Telkom also competes with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. Following the launch of Vodacom's and MTN's 3G networks, Vodacom and MTN customers are also now able to browse the internet on a high speed platform, which provides increased competition for our data services. Telkom has experienced significant customer migration in recent years from fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service, with the increase in mobile penetration in South Africa. If this migration continues, our growth rates, operating revenue and net profit could decline.

The rapid growth in the mobile market in South Africa has resulted in a significant increase in the number of Vodacom and Telkom calls terminating on mobile networks as opposed to our fixed-line network. Vodacom's and Telkom's margins and net profit could decline if this trend continues.

Vodacom and Telkom have experienced a significant change in the traffic mix as mobile customers have increased relative to fixed-line customers. This resulted in an increasing percentage of calls from Vodacom's network terminating on other mobile networks rather than our fixed-line

network. Vodacom's interconnection payments have increased and its margins have decreased because the cost of terminating calls on other mobile networks is higher than the cost of terminating calls on Telkom's fixed-line network. As a result, Vodacom's South African net interconnect revenue has been declining in recent years. Similarly, Telkom has incurred increased payments to other operators as a result of the growth in interconnection traffic for fixed-line calls terminating on mobile networks. If mobile customers continue to increase and there is little or no growth in fixed-line customers, this trend could continue and Vodacom's and Telkom's margins and net profit could decline.

Increased competition in the mobile communications markets in South Africa and other African countries may result in a reduction of Vodacom's average tariffs and Vodacom's market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline and its churn rates to increase.

Vodacom faces intense competition in the mobile communications markets in South Africa and other African countries. At March 31, 2006, Vodacom estimates that it held approximately 58%, MTN held approximately 33% and Cell C held approximately 9% of the South African mobile communications market, based on total estimated customers. Increasing competition, together with the further liberalization of the South African telecommunications industry, may result in a reduction in Vodacom's overall average tariffs, loss of market share and increased customer acquisition and retention costs, which could cause Vodacom's growth rates, revenue and net profit to decline. In addition, the expected implementation of mobile number portability in the 2007 financial year and the commencement of the Electronic Communications Act could further increase competition and cause Vodacom's churn rates to increase.

The value of Vodacom's investments outside of South Africa and its revenue and net profit may decline as a result of political, economic, regulatory and legal developments in the countries where Vodacom has invested.

Vodacom currently has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. These countries have political, economic, regulatory and legal systems that are still in the process of transformation and are less developed than those in the Republic of South Africa. Political or economic upheaval or changes in laws and regulations or in their application may harm the operations of the companies in which Vodacom invests and impact the value of these investments. The regulatory environments in these countries often lack clarity in a number of areas and are subject to varying interpretations. In addition, many of these countries suffer from extreme poverty, civil strife, political conflict and political mismanagement, all of which could cause the value of Vodacom's investments in these countries and Vodacom's revenue and net profit to decline. In particular, the first democratic elections in the Democratic Republic of the Congo took place on July 30, 2006, the outcome of which could determine whether there will be future political stability and economic growth.

Most of the fixed-line operators in these countries are state controlled. As a result, the mobile communications network operators in which Vodacom has invested may encounter difficulties in negotiating commercially acceptable interconnection agreements and collecting amounts due under interconnection agreements as Vodacom has experienced in the Democratic Republic of the Congo and is experiencing in Tanzania. In addition, Vodacom's other African operations have local minority shareholders and accordingly, Vodacom is subject to risks in its dealings with local shareholders that their interests may not always be aligned with those of Vodacom. In addition, a number of jurisdictions in which Vodacom invests have imposed price controls, particularly for interconnection, which could reduce Vodacom's net profit and cause the value of Vodacom's investments in these other African countries to decline. There are also foreign exchange control restrictions in South Africa, which may restrict Vodacom's ability to fund its investments in these countries, and there are foreign exchange controls in a majority of these countries, which may restrict Vodacom's ability to extract value from these investments.

The number of available mobile operators and mobile licenses and other acquisition and investment opportunities for our fixed-line business in other African countries and elsewhere is limited. Moreover, the acquisition of mobile operators and licenses and the consummation of other acquisitions and investments may be unsuccessful, which could have a material adverse effect on Vodacom's and Telkom's future growth.

Vodacom is seeking future growth opportunities from acquisitions of mobile operators or licenses in other sub-Saharan African countries. In addition, Telkom is pursuing other acquisitions and investments in countries throughout the African continent and elsewhere. There are significant risks associated with Vodacom's and Telkom's ability to identify and successfully acquire mobile operators and licenses or make other acquisitions and investments. There are a limited number of available mobile operators and licenses and acquisition and investment opportunities and there is substantial competition for the types of mobile operators and licenses Vodacom targets and acquisition and investment opportunities that would meet the criteria of Telkom and the shareholders of Vodacom. As described in the previous risk factor, many countries in Africa have political, economic, regulatory and legal systems that are still in the process of transformation and are less developed than those in the Republic of South Africa and many of these countries suffer from extreme poverty, civil strife, political conflict and political mismanagement and are subject to less developed corporate governance, business practices and more bureaucratic and regulatory delays. In addition, South African foreign exchange control limitations could delay or prevent investments by Vodacom and Telkom in other countries. There are also a limited number of partners that are able to arrange their own funding to invest in ventures in other African countries with Telkom and Vodacom and Telkom does not have prior experience investing outside of South Africa. To the extent that Vodacom and Telkom are not able to grow through other acquisitions and investments, our stock price could decline. Moreover, Vodacom and Telkom could expend a substantial amount of time and capital pursuing acquisitions they do not consummate, which could adversely affect their business, financial condition, results of operations and growth.

The expansion of Vodacom's and Telkom's operations may place a significant strain on their management, financial and other resources. Their ability to manage future growth through acquisitions and investments will depend upon their ability to monitor operations, maintain effective quality, corporate governance and financial controls and significantly expand their internal management, technical and accounting systems, all of which will result in higher operating expenses. The integration of acquired mobile operators or licenses and other businesses and investments may involve, among other things, integration of switching, transmission, technical, sales, marketing, billing, accounting, quality control, management, personnel, payroll, regulatory compliance and other systems and operating hardware and software, some of which may be incompatible with their existing systems and therefore may need to be replaced. In addition, telecommunications operators generally experience higher customer and employee turnover rates during and after an acquisition or launch of service. We cannot assure that Vodacom and Telkom will be able to integrate successfully the mobile operators, mobile licenses or other operations they may acquire.

If we lose key personnel or if we are unable to hire and retain highly qualified employees, our business operations could be disrupted and could impact on our ability to compete successfully.

Our success, including the success of Vodacom, depends in large part on our ability to hire and retain highly qualified employees who possess the requisite qualifications and technical skills. Telkom and Vodacom do not have long term employment agreements with a majority of their senior management, any of whom may terminate their employment. The loss of key personnel could disrupt our business operations if we are unable to replace them with similarly qualified individuals. We expect that competition for employees in the South African communications industry will increase as new competitors enter the market, including SNO-T. If we lose a number of our key employees to our competitors or are not able to continue to attract and retain highly qualified employees, our business operations could be disrupted and our ability to compete could be harmed.

We do not have the right to appoint the majority of Vodacom's directors or members of its directing committee and the Vodacom joint venture agreement contains approval rights that may limit our flexibility and ability to implement our preferred strategies.

Although we are a 50% shareholder in Vodacom, Vodafone Group Plc, or Vodafone, beneficially owns the remaining 50% interest in Vodacom. As a result, our flexibility and ability to implement our preferred strategies may be limited by the fact that we do not have the right to appoint the majority of Vodacom's directors or members of its directing committee. In addition, under our memorandum and articles of association, the Government is entitled to nominate the directors we appoint to the Vodacom board. The Vodacom joint venture agreement, which governs the relationship between Telkom and Vodafone, requires each of Vodacom's shareholders who own 10% or more of Vodacom's shares, which are currently Telkom and Vodafone, to approve certain material transactions. As a result of these factors, we may not be able to impose strategies on Vodacom that we believe to be beneficial to us without the approval of Vodafone.

If Vodacom does not continue to pay dividends or make other distributions to Telkom, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

Telkom receives dividends from Vodacom which Telkom uses to fund a portion of its capital and operating expenditures and service its debt and other financial obligations. Vodacom is legally distinct from Telkom and has no obligation to pay dividends or make other distributions to Telkom. Vodacom's ability to pay dividends and make other distributions to Telkom may be restricted by, among other things, its operations and the availability of funds and the terms of credit and debt arrangements entered into by it, as well as statutory and other legal restrictions. In addition, Vodacom's ability to pay dividends or make distributions to Telkom and its other shareholder requires the approval of Vodacom's shareholders who own 10% or more of Vodacom's shares, which are currently Telkom and Vodafone. To the extent that Vodacom is unable to, or otherwise does not, pay dividends or make other distributions to Telkom in the future, Telkom may not be able to pay dividends and service its debt and could be required to lower or defer capital expenditures, dividends and debt reduction, which could cause the trading prices of Telkom's ordinary shares and ADSs to decline.

If we are not able to continue to improve and maintain our management information and other systems, our ability to provide accurate and comprehensive operating information and to compete may be harmed.

Our management information systems do not provide management with certain operating data and financial information on a real-time basis that at times has made our budgeting and planning processes difficult. In addition, our customer and other management information systems and product catalogue are not yet fully integrated and therefore are not capable of providing us with comprehensive and detailed operating information, and we are not able to provide a single bill for customers with multiple locations and products or configure products and services across voice and data domains. To address these problems, we are in the process of developing and implementing a unified customer management system capable of generating a single view of the customer. The full integration between our various operational support systems is not expected to be complete until the 2008 financial year. Since November 2003, we have renewed our focus on information risk management and have identified several requirements for improved security of Telkom's information technology systems. Completion and compliance verification is expected during the 2007 financial year. To the extent we are not able to improve our systems and fully address these vulnerabilities, our ability to provide accurate and comprehensive operating information and to compete effectively in the

increasingly liberalized South African communications market may be harmed. In addition, some of the information systems in Vodacom's other African operations are new and are not capable of providing management on a real-time basis with operating data and financial information.

We have negative working capital, which may impair our operating and financial flexibility and require us to defer capital expenditures and we may not be able to pay dividends and our operations and financial condition could be adversely affected.

We had negative consolidated working capital of approximately R3.0 billion as of March 31, 2006, compared to negative consolidated working capital of approximately R2.3 billion as of March 31, 2005 and approximately R3.2 billion as of March 31, 2004. Negative working capital arises when current liabilities are greater than current assets. We intend to fund current liabilities through a combination of operating cash flows, new borrowings and borrowings available under existing credit facilities. We had R9.5 billion available under existing credit facilities as of March 31, 2006. If we are unable to generate sufficient operating cash flows or borrowings to fund our current liabilities, our operating and financial flexibility could be impaired and we may be required to defer capital expenditures and may not be able to pay dividends and our business operations and financial condition could be negatively impacted.

Continuing rapid changes in technologies could increase competition or require us to make substantial additional investments in technologies, which could reduce our return on investment and net profit.

The services we offer are technology intensive. The development of new technologies, such as fixed wireless services and packet radio services, could increase competition and make our technology obsolete. We may have to make substantial additional investments in new technologies to remain competitive. New technologies we choose may prove not to be commercially successful. As a result, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer bases, which could reduce our return on investments and net profit.

Delays in the development and supply of communications equipment may hinder the deployment of new technologies and services and cause our growth rates and net profit to decline.

Our operations, including the operations of Vodacom, depend in part upon the successful and timely supply of evolving fixed and mobile communications technologies. We use technologies from a number of suppliers and make significant capital investments in connection with communications technologies. If technologies are not developed or delivered by our suppliers on time or do not perform according to expectations or achieve commercial acceptance, we may be required to delay service introductions and make additional capital expenditures and we could be required to write-off investments in technology, which could cause our growth rates and net profit to decline.

If we continue to experience high rates of theft, vandalism, network fraud, payphone fraud and lost revenue due to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

We have historically experienced significant cable theft, theft of solar panels and wireless communications equipment, vandalism of payphones, network fraud, such as non-licensed calls, and payphone fraud in our fixed-line business. Theft and vandalism have caused our fixed-line fault rates to increase and the repair time on our network and the network downtime associated with such faults and network fraud and payphone fraud have resulted in lost operating revenue and significant costs. We have also lost operating revenue to non-licensed operators providing telecommunications services

in South Africa. If we are unable to continue to minimize theft, vandalism, network fraud and payphone fraud or if we continue to lose operating revenue to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

We need to improve our internal control over financial reporting and our independent auditors may not be able to attest to the effectiveness of our internal control over financial reporting, which could have a significant adverse effect on our business operations, reputation and net profit.

We are in the process of making improvements to our internal control over financial reporting in order to allow management to report on, and our independent auditors to attest to, our internal control over financial reporting, as required by Section 404 of the U.S. Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC thereunder, which we refer to as Section 404. The management certification and auditor attestation requirements of Section 404 will initially apply to Telkom for its annual report on Form 20-F for the year ended March 31, 2007. In addition, as discussed in Item 15. "Controls and Procedures," Telkom has identified errors in its consolidated financial statements and determined that it was necessary to restate its previously issued consolidated financial statements and its auditors, Ernst & Young, have notified Telkom that they had identified two significant deficiencies under standards established by the Public Company Accounting Oversight Board and Vodacom's auditors, Deloitte & Touche, have advised that they have identified two significant deficiencies at Vodacom that were reported to Telkom's and Vodocom's audit committees. We may identify other conditions that may result in significant deficiencies or material weaknesses in the future, which could impact our ability to comply with Section 404 in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent auditors may not be able to attest to the effectiveness of our internal control over financial reporting and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. In addition, we may be required to incur costs in improving our internal control system. Any such action could negatively affect our results and have a significant adverse effect on our business operations, reputation and net profit.

Actual or perceived health risks relating to mobile handsets, base stations and associated equipment and any related publicity or litigation could make it difficult to find attractive sites for base stations and reduce Vodacom's growth rates, customer base, average usage per customer and net profit.

Concern has been expressed that the electromagnetic signals from mobile handsets, base stations and associated equipment may pose health risks. Actual or perceived risks of mobile handsets or base stations and related publicity or litigation, could make it difficult to find attractive sites for base stations and reduce Vodacom's growth rates, customer base, average usage per customer and net profit.

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 owned 38.0% of Telkom's issued and 39.8% of Telkom's outstanding ordinary shares plus the class A ordinary share as of June 30, 2006. Through its ownership and voting arrangements provided for in Telkom's articles of association, the Government is entitled to appoint five of Telkom's directors, and is able to exert considerable influence over Telkom's corporate governance, strategic direction and major corporate actions and to appoint directors of Telkom's subsidiaries and the Vodacom joint venture. In addition, as of June 30, 2006, the Public Investment Corporation, an investment management company wholly owned by the South African Government, held 16.1% of Telkom's issued and 16.9% of Telkom's outstanding ordinary

shares, which includes 7.5% of Telkom's issued and 7.9% of Telkom's outstanding shares acquired in the market, and, through its ownership of Telkom's class B ordinary share, is entitled to appoint one of Telkom's directors.

Telkom's articles of association require Telkom to obtain written consent from the Government before taking actions that would limit Telkom's ability to provide public switched telecommunication services. Telkom's articles of association also require the approval of directors appointed by the Government in order for Telkom or any of its subsidiaries, including Vodacom, to enter into major corporate actions and transactions, including amendments to Telkom's management structure and the powers of Telkom's operating committee (which was terminated by the Telkom board at which time certain powers were delegated to the chief executive officer assisted by an executive committee), the approval of Telkom's dividend policy and payment of dividends, increases in Telkom's indebtedness beyond certain limits and changes of control. As a result, without the approval and participation of the Government, Telkom is not able to consummate transactions involving an actual or potential change of control, including transactions in which you might otherwise receive a premium for your ordinary shares or ADSs over market prices. Because the Government exercises control over Telkom, holders of ordinary shares and ADSs lack meaningful power to approve decisions of Telkom's board of directors or to influence our strategic direction and major corporate actions.

The Government of the Republic of South Africa may use its position as shareholder of Telkom and policymaker for, and customer of, the telecommunications industry in a manner that may be favorable to our competitors and unfavorable to us.

The Government of the Republic of South Africa owned 38.0% of Telkom's issued and 39.8% of Telkom's outstanding ordinary shares as of June 30, 2006. The Government also holds significant equity stakes in other industry participants, including Sentech, and has an indirect 30% equity interest in SNO-T. To further its policy of liberalization of the telecommunications industry, the Government may adopt and implement policies and exercise its right to approve regulations that benefit our competitors but are not beneficial to us. In addition, to further other political or social objectives, the Government may be required to act in a manner that may be detrimental to our business but advantageous to our competitors.

The Government of the Republic of South Africa is also one of our customers. We estimate that Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line operating revenue, excluding directory services and other revenue, in the year ended March 31, 2006. The Government could transfer some or all of its business to SNO-T or other operators when they commence operations. Legislation has been enacted to centralize all procurement of telecommunications and information technology services by the Government, through one agency. If the Government transfers some or all of its business to other operators, our operating revenue and net profit could decline.

Risks Related to Regulatory and Legal Matters

The regulatory environment for the telecommunications industry in South Africa is evolving and regulations addressing a number of significant matters have not yet been made. The interpretation of existing regulations, the adoption of new policies or regulations that are unfavorable to us, or the imposition of additional license obligations on us, could disrupt our business operations and could cause our net profit and the trading prices of Telkom's ordinary shares and ADSs to decline.

The licensing and provision of telecommunications services in the Republic of South Africa is subject to the Telecommunications Act and the extensive regulations made under the Telecommunications Act. The Telecommunication Act was repealed by the Electronic Communications Act when the Electronic Communications Act came into effect on July 19, 2006. While a new licensing

regime was created by the Electronic Communications Act, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime. Regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. As a result, the regulatory environment is evolving, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalized. In addition, the regulatory process entails a public comment process, which, in light of the politicized issue of privatization of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified, including:

- the process of converting our licenses to the new legal framework provided by the Electronic Communications Act and the extent of additional obligations that may be imposed on our converted licenses as a result of proposals by ICASA to reintroduce quality of service obligations that lapsed in 2002;
- whether and the extent to which our licenses may be amended as a result of the licensing of SNO-T and whether any additional obligations may be imposed on us at that time or thereafter;
- the extent to which our fixed-line business will be required to make its facilities or access lines available to SNO-T or other competitors to provide services, other than public switched telecommunications services, on a resale basis;
- the extent to which our fixed-line business may be required to unbundle its local loop;
- the legal and regulatory framework that will ultimately be established to implement the provisions of the Electronic Communications Act; and
- the additional obligations that may be imposed on us in terms of the Electronic Communications Act if we are found to be dominant in a market in which we operate.

A bill amending the ICASA Act, No.13 of 2000, was passed by the Parliament of South Africa in December 2005 and signed by the President of South Africa and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquiries and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non-compliance with the Electronic Communications Act.

It has been reported that ICASA may currently lack adequate resources to effectively fulfill its regulatory and licensing functions and to deal with regulatory challenges that continue to change given the rapidly evolving telecommunications environment. ICASA’s capacity may be further strained by the workload that will be imposed on it by the Electronic Communications Act. This combination of factors creates further uncertainties in the regulatory arena and the ability of ICASA to effectively fulfill its functions. In addition, while we believe our relationship with ICASA has improved in recent years, we had disagreements with, and cases against, ICASA in the past. We cannot predict the outcome or timing of any amendments to applicable regulations or the interpretation thereof, the release of new regulations or their impact on us. However, changes in the regulation of telecommunications services in South Africa, the imposition of unfavorable terms in our licenses or the loss or unfavorable amendment of any license could disrupt our business operations and could cause our net profit and the trading prices of Telkom’s ordinary shares and ADSs to decline.

In addition, new laws and regulations that may require our business customers to make use of suppliers complying with black economic empowerment requirements may affect us. If Telkom is not able to meet the minimum requirements of these black economic empowerment initiatives or restrictions, some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfill such requirements.

Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our revenues and net profit. Vodacom's revenue and net profit could also decline if wholesale price controls are imposed on it.

Regulations made under the Telecommunications Act impose a price cap on a basket of Telkom's services and 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 80% of Telkom's operating revenue in the year ended March 31, 2005 was included in this basket, compared to approximately 66% of Telkom's operating revenue in the year ended March 31, 2006. The reason for the decrease was due to a change in methodology of the amount included in the basket for purposes of our filing with ICASA in the 2006 financial year to exclude the mobile termination fees for fixed-to-mobile calls. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered from 1.5% to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft regulations have also been published for comment on the pricing and provision of ADSL services, which would, among other things, prohibit Telkom from charging a monthly rental for providing ADSL service and limit Telkom to charging only an installation fee for such service. These limitations on our customer tariffs limit our pricing flexibility and could reduce our net profit. Furthermore, Telkom's revenue and net profit could decline substantially if the pricing aspects of the regulations are not amended to allow full cost recovery and reasonable profit on the provision of ADSL services. Similarly, Vodacom's revenue and net profit could decline if price controls are imposed on it.

We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission. If we lose these legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition.

We are parties to a number of legal and arbitration proceedings, including complaints filed by the South African Value Added Network Services Association and the South African Internet Service Providers Association with the South African Competition Commission, alleging anti-competitive practices. If we were to lose these legal and arbitration proceedings, we could be required to cease these practices, divest these businesses and fined a penalty of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the dates of the complaints. In addition, Telcordia Technologies Incorporated, a New Jersey corporation, instituted arbitration proceedings against Telkom in March 2001 seeking to recover approximately $130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year, relating to the supply of a customer assurance and activation system by Telcordia. As competition continues to increase, we expect that we will become involved in an increasing number of disputes regarding the legality of services and products provided by us and third parties. These disputes may range from court lawsuits to complaints lodged by or against us with various regulatory bodies such as the complaint launched by ORION against Telkom with the South African competition authorities

relating to certain discount plans that Telkom offers. See "Item 8. Financial Information–Legal Proceedings." We are not currently able to predict when these disputes may be resolved or the amount that we may eventually be required to pay, however, we have not included provisions for any of these claims in our financial statements. In addition, we may need to spend substantial amounts defending or prosecuting these claims even if we are ultimately successful. If we were to lose these or future legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition. We may be required to fund any penalties or damages from cash flows or drawings on our credit facilities, which could cause our indebtedness to increase.

If we are unable to negotiate favorable terms, rates and conditions for the provision of interconnection services and facilities leasing services, our business operations could be disrupted and our net profit could decline.

Telkom is required to provide interconnection services to the mobile operators, SNO-T and all other entities that lawfully provide telecommunications services in South Africa and to lease or otherwise make its telecommunications facilities available to any entity lawfully providing or utilizing telecommunications services in South Africa. Telkom will also be required to allow SNO-T to use all of its telecommunications facilities for the provision of public switched telecommunications services on a resale basis and to provide shared access to the local loop for the first two years of its license. Telkom may also be required to lease or otherwise make its telecommunications facilities available to SNO-T beyond the first two years. The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop. The Minister of Communications has announced that she planned to issue policy directives with respect to the time period for the unbundling of Telkom's local loop and the sharing of access to Telkom's undersea cables and has formed a committee to evaluate the unbundling of Telkom's local loop. The terms and conditions for the provision of these services and facilities are, or will be, set out in interconnection agreements and facilities leasing agreements negotiated and agreed to by Telkom with these other entities.

ICASA is entitled to issue, and has issued, regulations relating to interconnection and facilities leasing. Telkom has been declared a Major Operator, and consequently is required to provide Essential Services and Essential Facilities at the Long Run Incremental Cost, or LRIC, of these services, including a reasonable allocation of common costs and cost of capital, to Public Operators, such as MTN, Vodacom, Cell C, Sentech, USALs and SNO-T. None of these operators have been declared to be Major Operators to date. However, in May 2005 ICASA initiated an enquiry into whether MTN and Vodacom should be declared Major Operators. If any of them is found to be a Major Operator, they would be required, like Telkom, to provide interconnection and facilities leasing services at cost based prices to other operators. New draft interconnection and facilities leasing regulations have been proposed by ICASA and published for comment that would extend the right to cost based prices to all licensees. To the extent that a Major Operator, such as Telkom, is unable to reach agreement with these entities for the provision of these services, including the applicable tariffs, or to the extent that the terms and conditions of a Major Operator's agreements are found to be inconsistent with the relevant legislation or regulations, such terms and conditions may be determined and imposed on the Major Operator by ICASA. The Electronic Communications Act replaced the concept of Major Operator status with that of significant market power in a market segment and empowers ICASA to impose pro-competitive conditions on operators found to have significant market power, which may affect the manner in which facilities are leased and interconnection is to be provided by such operators, and the charges thereof. If we are unable to negotiate favorable terms and conditions for the provision of the services and facilities covered by the guidelines or ICASA finds Vodacom to be a Major Operator or Telkom or Vodacom to have significant market power or otherwise imposes terms and conditions that are unfavorable to us, our business operations could be disrupted and our net profit could decline.

If we are unable to recover the substantial capital and operational costs associated with the implementation of carrier pre-selection and number portability or are unable to implement these requirements in a timely manner, our business operations could be disrupted and our net profit could decline. The implementation of carrier pre-selection and number portability will also likely further increase competition and cause our churn rates to increase.

The Telecommunications Act mandated that fixed-line operators were required to implement carrier pre-selection, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. Call-by-call carrier pre-selection must be implemented and must be provided by an operator within two months of it being requested by another operator and fully automatic pre-selection must be implemented and must be provided by an operator within ten months of it being requested by another operator. Telkom will not be able to fully implement carrier pre-selection until the SNO-T's interconnection systems and the inter-operator process and systems to support carrier pre-selection become available, however, Telkom does not believe that it will be able to implement automatic carrier pre selection within ten months of it being requested. The Telecommunications Act also 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. It is currently expected that Telkom will be required to provide "block" number portability in the 2006 calendar year and individual number portability later, but within 12 months from being requested by an operator. The full set of regulations for the implementation of fixed number portability, however, have not yet been published. Telkom has received a request from SNO-T to implement both "block" and individual number portability and discussions on the implementation of the required inter operator systems are under way. Telkom will not be able to determine the time required to implement number portability until the functional specification regulations are published. On September 30, 2005, ICASA published the number portability regulations and functional specifications for mobile number portability which requires that mobile number portability must be implemented by June 30, 2006. ICASA and the cellular operators have been in consultation over the last ten months to agree to the functional and technical specifications to ensure compliance with the Telecommunications Act. As a result, mobile number portability is expected to be implemented in the 2007 financial year. We will incur substantial set-up and maintenance costs in connection with the implementation of these requirements, which could disrupt our business operations. The extent of recoverability of these costs have not yet been determined and finalized by ICASA. We may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline. In addition, the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

The implementation of the Regulation of Interception of Communications and Provisions of Communication-Related Information Act, or RICA, could be costly and may negatively impact the ability of Telkom and Vodacom to register customers and may require them to disconnect existing customers, causing their penetration rates, growth rates, revenue and net profit to decline.

RICA is a South African law that regulates the authorization for and actual lawful interception of communications. The Act came into effect on September 30, 2005, with the exception of certain sections requiring the collection of customer details and identity verification prior to providing mobile cellular telecommunications services. The compliance date for these sections has not been determined and will come into effect by presidential proclamation. RICA obligates service providers to obtain and store customer details, including names, identity numbers, residential and business or postal addresses and requires verification of customers' details with reference to a certified copy of a customer's identity document and his or her actual identity document. Telkom has not completed the implementation of all of these requirements and Vodacom may not be able to implement these requirements by the time period, which has not yet been determined, in which it is required to implement them. Furthermore, the implementation of RICA is expected to require significant costs resulting from its paper verification and storage requirements and negatively impact the ability of Telkom and Vodacom to register customers

due to its burdensome registration process, which may not be practical and may require the disconnection of customers for whom such information is unavailable. As a result, Telkom's and Vodacom's business operations could be disrupted and their net profit could decline and they may be liable for penalties to the extent they are not able to comply with RICA's requirements.

In addition, commencing in June 2006, all licensees, including Telkom and Vodacom, were required to install equipment and implement procedures to allow lawful interception by law enforcement agencies in South Africa, including the interception of communications and the provisioning of call-related (billing) information. Telkom was not able to comply with all of these requirements by June 2006, and is in consultation with the Office for Interception Centres and the Department of Communication to adopt a phased approach for compliance in the first quarter of the 2007 calendar year. To the extent that we are unable to comply with all the requirements of RICA or are unable to substantially recover these costs of compliance, our business operations could be disrupted and our net profit could decline and we may be liable for penalties.

If Telkom is 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, Telkom could incur increased expenses and its net profit could decline and compliance with the PFMA and PAA could result in the delisting of Telkom's ordinary shares and ADSs from the JSE and New York Stock Exchange.

Telkom is required to comply with the provisions of the PFMA and PAA. Telkom applied for and obtained a temporary exemption from many of the provisions of the PFMA until November 2007 and has been informed by the South African Auditor-General that it will not be required to comply with the PAA until such date. If Telkom does not obtain a further exemption from the PFMA or if it is required to comply with the PAA or its existing exemption from the PFMA is revoked for any reason or it is otherwise required to comply with the PFMA or PAA, Telkom may be compelled to prepare financial statements in accordance with accounting principles and practices prescribed by the Government of the Republic of South Africa which may not correlate with IFRS or US GAAP and would require Telkom to incur additional costs. Telkom would also be required to comply with, what it believes to be, extremely prescriptive treasury regulations issued pursuant to the PFMA and PAA, to provide the Government with advance access to proprietary and potentially price sensitive information and to seek the prior approval of South African governmental authorities to enter into certain material agreements, to maintain certain bank accounts, to formulate and implement certain investment strategies or to discharge its auditors, which would preclude Telkom from acting in the same manner as its competitors and other listed companies. If Telkom is required to comply with the PFMA and PAA, Telkom may not be able to comply with the Listings Requirements of the JSE or the listing rules of the NYSE and Telkom's ordinary shares and ADSs could be delisted.

Our total property tax expense could increase significantly and our net profit could decline as a result of the enactment of the South African Municipal Property Rates Act, 6 of 2004.

On May 11, 2004, the South African Municipal Property Rates Act, 6 of 2004, was enacted. Pursuant to this new Act, municipalities are required to levy property tax in accordance with a rates policy that must be adopted and regularly reviewed by municipalities with community participation facilitated through the municipalities annual budget process. Due in part to the fact that no rate has to date been prescribed, it is too early to assess exactly how the new Act would affect us. As a substantial landowner in South Africa, our total property tax expense could increase significantly and our net profit could decline as a result of the implementation of this Act.

Risks Related to the Republic of South Africa

Fluctuations in the value of the Rand and inflation rates in South Africa could have a significant impact on the amount of Telkom's dividends, the trading prices of Telkom's ordinary shares and ADSs, our operating revenue, operating expenses, net profit, capital expenditures and on the comparability of our results between financial periods.

The value of the Rand as measured against the Dollar has historically fluctuated significantly. The value of the Rand as measured against the Dollar has increased from R11.38 per $1.00 as of March 29, 2002 to R7.90 per $1.00 as of March 31, 2003 and R6.32 per $1.00 as of March 31, 2004. The value of the Rand as measured against the Dollar was R6.22 per $1.00 as of March 31, 2005 and R6.15 per $1.00 as of March 31, 2006.

Fluctuations in the exchange rate between the Rand and the Dollar could have an adverse impact on:

- the Dollar equivalent of any dividends and distributions on Telkom's ordinary shares and ADSs payable in Rands;
- the Dollar equivalent of the Rand denominated prices of Telkom's ordinary shares; and
- the market value of Telkom's ADSs in the United States.

These fluctuations could also impact the amount in Rand terms of our non-Rand denominated debt, impact our non-Rand denominated financing costs and operating and capital expenditures and cause our net profit to fluctuate. In addition, the volatility of the Rand as measured against the Dollar and the Euro resulted in net foreign exchange losses of R9 million and R776 million in the years ended March 31, 2005 and March 31, 2004, respectively, and a profit of R113 million in the year ended March 31, 2006, in terms of IAS39. In addition, fluctuations in currency exchange rates between the South African Rand and the currencies in African countries where Vodacom has investments could decrease the value of these businesses and Vodacom's and our net profit. See Item 5. "Operating and Financial Review and Prospects–Operating Results–Principal Factors that affect our Results of Operations Volatility of the Rand."

The levels of unemployment, poverty and crime in South Africa may cause the size of the South African communications market and our growth rates, operating revenue and net profit, as well as the trading prices of Telkom's ordinary shares and ADSs, to decline.

While South Africa features a highly developed financial and legal infrastructure at the core of its economy, levels of unemployment, poverty and crime exist. These issues may hinder investment into South Africa, prompt emigration of skilled workers and may have an impact on economic growth. Although it is difficult to predict the effect of these issues on South African businesses or the Government of the Republic of South Africa, they may cause the size of the communications market and our growth rates, operating revenue and net profit, as well as the trading prices of Telkom's ordinary shares and ADSs, to decline.

The high rates of HIV infection in South Africa could cause the size of the South African communications market and our growth rates, operating revenue and net profit to decline.

South Africa has a high rate of HIV infection. The exact impact of increased mortality rates due to AIDS deaths on the cost of doing business in South Africa and the potential growth in the economy is unclear at this time although employee related costs in South Africa are expected to increase as a result of the AIDS epidemic and the size of the South African population and the communications market could decline. Our growth rates, operating revenue and net profit could decline if employee related expenses increase or our labor supply or the size of the South African population and communications market decline.

Significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining and the cost of compliance with South African labor laws could limit our operating flexibility and disrupt our fixed-line business operations and reduce our net profit.

Trade unions represented approximately 74% of our total Telkom employees and approximately 10% of Vodacom's employees as of March 31, 2006. Trade unions have resisted workforce reductions

and publicly opposed our privatization and have instituted and in the future could institute work stoppages to oppose changes in our shareholding structure or gain leverage in negotiating collective bargaining agreements. Approximately 23% of Telkom’s employees participated in a work stoppage in March 2006 and approximately 31% of Telkom’s employees participated in an additional work stoppage in April 2006 with respect to compensation issues, during which period Telkom received increased reports of sabotage, vandalism and other incidents. In addition, a number of South African trade unions, including the trade unions of our employees, have close links to various political parties and have had a significant influence in South Africa as vehicles for social and political reform and in the collective bargaining process. Since 1995 South Africa has enacted various labor laws that enhance the rights of employees, which have imposed costs on us and have limited our flexibility and ability to implement workforce reductions. If we are unable to implement workforce reductions as necessary, particularly as a result of increased competition, or experience significant labor disputes, work stoppages, increased employee expenses as a result of collective bargaining or compliance with labor laws, our fixed-line business operations could be disrupted and our net profit could be reduced.

South African exchange control restrictions could hinder our ability to make foreign investments and procure foreign denominated financings.

South Africa’s exchange control regulations restrict transactions between residents of the Common Monetary Area, which consists of South Africa, the Republic of Namibia, and the Kingdoms of Lesotho and Swaziland, and non-residents of the Common Monetary Area. In particular, South African companies are generally not permitted, without the prior approval of the Exchange Control authorities, to export capital from South Africa or to hold foreign currency in excess of certain prescribed limits.

These restrictions could hinder our ability to make foreign investments and obtain foreign denominated financing. While the South African Government has relaxed exchange controls in recent years, it is difficult to predict whether or how it will further relax or abolish exchange control measures in the future. See Item 10. “Additional Information–Exchange Controls.”

Risks Related to Ownership of Telkom’s Ordinary Shares and ADSs

The future sale of a substantial number of Telkom’s ordinary shares or ADSs could cause the trading prices of Telkom’s ordinary shares and ADSs to decline.

As of June 30, 2006, Government of the Republic of South Africa owned 38.0% of Telkom’s issued and 39.8% of Telkom’s outstanding ordinary shares, plus the class A ordinary share, the Public Investment Corporation owned 16.1% of Telkom’s issued and 16.9% of Telkom’s outstanding ordinary shares, which includes 7.5% of Telkom’s issued and 7.9% of Telkom’s outstanding shares acquired in the market, plus the class B ordinary share, and the Elephant Consortium owned 6.9% of Telkom’s issued and 7.2% of Telkom’s outstanding ordinary shares. Telkom has adopted a management and employee incentive plan that provides for the issue or grant of up to 22,281,272 ordinary shares, of which 4,344,894 have been granted as of March 31, 2006. Sales of substantial amounts of shares by Telkom’s shareholders, or by Telkom, or the appearance that a large number of shares are available for sale, could cause the trading prices of Telkom’s ordinary shares and ADSs to decline. Telkom has entered into a registration rights agreement with the Government of the Republic of South Africa. Pursuant to the agreement, the Government has the right to cause Telkom to either effect a JSE public offering in South Africa, or register with the Securities and Exchange Commission all or part of their ordinary shares, or both.

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.

Telkom is a public limited liability company incorporated under the laws of the Republic of South Africa. The rights of holders of Telkom's ordinary shares and therefore many of the rights of Telkom's ADS holders are governed by Telkom's articles of association and by South African law. These rights differ in material respects from the rights of shareholders in companies incorporated elsewhere, such as in the United States. In particular, South African law significantly limits the circumstances under which shareholders of South African companies may institute litigation on behalf of a company. For a description of the differences between shareholders' rights under South African law and Delaware law, see Item 10. "Additional Information–Memorandum and Articles of Incorporation–Comparison of Shareholders' Rights under South African and Delaware Law."

It may not be possible for you 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.

Telkom and all of the members of its board of directors and executive officers are residents of South Africa. In addition, Telkom's assets and the assets of members of its board of directors and executive officers are located in whole or in substantial part in South Africa. As a result, it may not be possible for you to effect service of legal process within the United States or elsewhere outside of the Republic of South Africa upon our directors or officers, including with respect to matters arising under US federal securities laws or applicable state securities laws. Moreover, it may not be possible for you to enforce against Telkom or the members of its board of directors and executive officers judgments obtained in courts outside South Africa, including the United States, based on the civil liability provisions of the securities laws of those countries, including those of the United States. A foreign judgment is not directly enforceable in South Africa, but constitutes a cause of action, which may be enforced by South African courts with the approval of the South African Minister of Trade and Industry. In addition, awards of punitive damages will not be enforceable in South Africa. Although it is possible for an investor to bring an action against Telkom in a South African civil court to enforce rights in terms of US federal securities laws, these laws will not be enforced if they are penal or revenue or taxation laws or laws which are contrary to South African public policy. It is not possible therefore for an investor to seek to impose criminal liability on us in a South African court arising from a violation of US federal securities laws.

Your ability to sell a substantial number of ordinary shares and ADSs may be restricted by the limited liquidity of ordinary shares traded on the JSE.

The principal trading market for Telkom's ordinary shares is the JSE. Historically, trading volumes and liquidity of shares listed on the JSE have been low in comparison with other major markets. In addition, as of March 31, 2006, only 2.6% of the 237,123,985 ordinary shares publicly traded were represented by ADSs trading on the NYSE. The limited liquidity of the ordinary shares and ADSs could depress the trading prices of the ordinary shares and ADSs and could limit your ability to sell a substantial number of ordinary shares or ADSs in a timely manner, especially by means of a large block trade.

Item 4. Information on the Company

HISTORY AND DEVELOPMENT OF THE COMPANY

Telkom was incorporated on September 30, 1991 as a public limited liability company registered under the South African Companies Act, 61 of 1973, as amended. Telkom's registration number is 1991/005476/06. Telkom's principal executive offices are located at Telkom Towers North, 152 Proes Street, Pretoria 0002, Gauteng Province, South Africa. Telkom's telephone number is (27) (12) 311 3566 and its internet address is http://www.telkom.co.za. Information contained on Telkom's website is not part of this annual report.

Recent Developments

Liberalization of South African communications market

Licensing of the second national operator

In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, SNO-T, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. ICASA issued this license on December 9, 2005, however, SNO-T is not expected to commence business activities until the second half of the 2006 calendar year.

Underserviced areas licenses

A process has also commenced to issue additional licenses to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5%. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licenses to successful bidders in seven of them and has issued invitations to apply for licenses in the remaining 20. It is expected that further licenses will be issued in the 2006 calendar year.

Determinations by the South African Minister of Communications

In September 2004, the Minister of Communications issued determinations pursuant to which, since February 1, 2005:

- mobile cellular operators have been permitted to obtain fixed telecommunications links from parties other than Telkom;
- VANS operators and private network operators have been permitted to resell the telecommunications facilities that they obtain from Telkom;
- VANS operators have been permitted to allow their services for the carrying of voice, including voice-over internet protocol;
- Telkom is no longer the sole provider of facilities to VANS operators; and
- licensing for the provision of payphone services has been expanded.

These determinations are incorporated in the Electronic Communications Act.

Electronic Communications Act

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the

Telecommunications Act. The bill, renamed the Electronic Communications Bill, was passed by the Parliament of South Africa in December 2005 and signed by the President of South Africa on April 18, 2006. The Electronic Communications Act, No. 36 of 2005 came into effect on July 19, 2006. The Electronic Communications Act aims to supplement or replace current sector specific legislation and change the market structure from a vertically integrated, infrastructure based, market structure to a horizontal, service based, technology neutral, market structure with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum. All existing licenses are to remain valid until converted to new licenses in line with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. As a result, Telkom's licenses will be converted to new licenses in accordance with the new licensing regime. We expect that the new licensing framework will result in the market becoming more horizontally integrated and will substantially increase competition in our fixed-line business. In addition, the process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit.

See "–Regulation and License Requirements–Regulation–Overview."

ICASA Act Amendment Bill

A bill amending the ICASA Act, No 13 of 2000, was passed by the Parliament of South Africa in December 2005 and was signed by the President of South Africa and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquiries and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non-compliance with the Electronic Communications Act.

Carrier pre-selection

The Telecommunications Act mandated that fixed-line operators were required to implement carrier pre-selection, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. Regulations were only published on June 24, 2005 for the implementation of carrier pre-selection in two phases. In phase one, call-by-call carrier pre selection must be implemented and must be provided by an operator within two months of it being requested by another operator. In phase two, fully automatic pre-selection must be implemented and must be provided by an operator within ten months of it being requested by another operator. Telkom had already conditioned its exchanges to handle call-by-call carrier pre-selection by December 31, 2003. Telkom will not be able to fully implement carrier pre-selection until the SNO-T's interconnection systems and the inter-operator process and systems to support carrier pre-selection become available, however, Telkom does not believe that it will be able to implement automatic carrier pre-selection within ten months of it being requested.

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. A framework number portability regulation was published at the end of 2004 that generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. It is currently expected that Telkom will be required to provide "block" number portability in the 2006 calendar year and individual number portability later, but within 12 months from being

requested by an operator. The full set of regulations for the implementation of fixed number portability, however, have not yet been published. Telkom has received a request from SNO-T to implement both "block" and individual number portability and discussions on the implementation of the required inter-operator systems are under way. Telkom will not be able to determine the time required to implement number portability until the functional specification regulations are published. On September 30, 2005, ICASA published the number portability regulations and functional specifications for mobile number portability which requires that mobile number portability must be implemented by June 30, 2006. ICASA and the cellular operators have been in consultation over the last ten months to agree to the functional and technical specifications to ensure compliance with the Telecommunications Act. As a result, mobile number portability is expected to be implemented in the 2007 financial year.

Telkom's price control regulation

Regulations made under the Telecommunications Act impose a price cap on a basket of Telkom's services and 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. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. Effective from August 1, 2005 through July 31, 2008, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was lowered from 1.5% to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, draft regulations have been published for comment on the pricing and provision of ADSL services, which would, among other things, prohibit Telkom from charging monthly rental for providing ADSL service and limit Telkom to charging an installation fee for such service. See Item 3. "Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom's revenue and net profit could decline if wholesale price controls are imposed on it." and Item 4. "Information on the Company–Business Overview–Fixed-line Communications–Fees and Tariffs–Tariff rebalancing" and Item 4. "Information on the Company–Regulation and License Requirements."

Business Connexion offer

On April 4, 2006, Telkom announced its firm intention to make an offer to acquire the entire issued share capital of Business Connexion Group Limited, or BCX, other than the BCX shares held as treasury shares and, if the trustees of the BCX share incentive trust so agree, the BCX shares held by the BCX share incentive trust. Telkom has offered to acquire the outstanding options in BCX on the same terms and conditions as the offer for the shares. The offer would be implemented by way of a scheme of arrangement in terms of section 311 of the South African Companies Act, to be proposed by Telkom between BCX and its shareholders.

Telkom believes that the transaction will advance Telkom's ongoing data strategy. In particular, Telkom believes that the transaction will enhance Telkom's ability to offer its customers end-to-end solutions across the information communications technology value chain. Telkom's strength has to date been on information communications technology services relevant to its core connectivity proposition, managed network and internet access. BCX offers a complementary service offering. Telkom believes that the transaction will enable Telkom to have a meaningful presence in the information technology services market extending its value chain with BCX's capabilities in business application and support management, business process outsourcing and other information technology related complementary lines of business.

BCX has defined a strategy to expand into the communications arena and has been considering a relationship with a communications company to that effect. If the offer is successful, BCX is expected to continue to operate as a standalone or separate business unit within Telkom. BCX expects to retain and expand its service offering and service its clients with ongoing commitment.

Telkom's offer is for the entire issued share capital of BCX at a cash consideration of R9.00 per share for an aggregate of R2.4 billion, including outstanding options. In addition, Telkom has agreed to BCX paying a dividend of R0.25 per share following the scheme meeting, but prior to the implementation of the scheme. Furthermore, Telkom has agreed to BCX continuing to pay dividends in the ordinary course of business in line with its current policy to maintain a three times dividend cover ratio, excluding exceptional items, provided that such dividends do not materially alter the net cash position of BCX as of November 30, 2005, unless such diminution in cash occurred due to an increase in assets of BCX.

On June 12, 2006, BCX's shareholders voted in favor of the scheme and on June 20, 2006, the South African courts sanctioned the scheme, subject to the approval of the offer by the South African competition authorities, either unconditionally or subject to such conditions as may be acceptable to Telkom by no later than December 15, 2006, or such later date as agreed between Telkom and BCX.

Telkom's offer remains subject to the fulfilment, by no later than December 15, 2006, of the following conditions precedent:

- a certified copy of the order of court sanctioning the scheme being registered by the South African Registrar of Companies;
- the approval of the offer by the South African competition authorities, either unconditionally or subject to such conditions as may be acceptable to Telkom; and
- the approval of the scheme by all regulatory authorities if and to the extent necessary, including the South African Reserve Bank, the South African Securities Regulation Panel, the JSE and ICASA.

Telkom has also entered into and agreement with Gadlex (Pty) Limited pursuant to which it has the right to acquire an additional minority interest in Business Connexion (Pty) Limited, BCX's major operating subsidiary, at the implied value of the offer for BCX, from a portion of Gadlex's 25% investment in Business Connexion (Pty) Limited. This agreement is subject to a number of conditions and may change.

Vodafone's acquisition of an additional 15% beneficial interest in Vodacom

On April 20, 2006, Vodafone acquired 100% of the shares of VenFin Limited, who ultimately owned 15% in Vodacom, thus increasing its beneficial interest in Vodacom to 50%.

Vodacom's acquisitions

Vodacom acquired a 51% stake in Cointel VAS (Pty) Limited, or Cointel, for approximately R84.3 million on August 1, 2005. Cointel's core business is providing value added and m-commerce services to the telecommunications industry.

An offer to acquire the cellular business of Africell Cellular Services (Pty) Limited, or Africell, an exclusive Vodacom dealer in South Africa, was accepted on April 6, 2006. The acquisition is subject to a number of conditions, including approval by the South African Competition Commission.

Vodacom's change in South African definition of active customers

Vodacom's South Africa operations historically defined active customers as customers with a SIM card that had revenue generating activity in the three months leading up to the reporting date. Up to mid June 2006, calls forwarded to voicemail were regarded as revenue generating activity and such SIM cards were classified as active customers. An analysis of the customer base, based on a statistical sampling, has revealed that a large number of SIM cards have calls forwarded to voicemail as their only revenue generating activity. The majority of such messages are never retrieved by the customer. Vodacom estimates that these SIM cards have an ARPU of less than R1 per month, which is below the cost of maintaining such SIM cards on the network.

Vodacom has therefore decided to change its definition of active customers to exclude calls forwarded to voicemail from the definition of revenue generating activity. Such SIM cards would be disconnected from the network after being inactive for a 215 consecutive day period in accordance with Vodacom South Africa's current disconnection policy. The retrieval of a voice message by a customer is classified as a revenue generating activity.

Based on statistical analyses, Vodacom estimates that approximately 3.5 million affected pre-paid SIM cards included in Vodacom South Africa's customer base on June 30, 2006 will be deleted by December 31, 2006. It is also expected that monthly churn from July 2006 onwards would increase as a result of the activity rule change.

Agreement with SAVVIS

In July 2006, Telkom and SAVVIS Inc, a NASDAQ listed provider of IT infrastructure services for business applications, signed a strategic collaboration agreement to work on business growth opportunities. Under the terms of the agreement, Telkom will provide SAVVIS' utility computing and managed hosting services to its customers, including local businesses and global organizations with operations in South Africa. This alliance is also expected to enable Telkom South Africa to provide SAVVIS with network services into this region. The collaboration is part of a strategic move by Telkom to continue to deliver increased value to the business community in South Africa and is expected to enable Telkom to provide its customers with leading technologies.

Appointment of new CEO

On August 17, 2005, the Telkom board announced the appointment of Mr. Papi Molotsane as the new chief executive officer of Telkom with effect from September 1, 2005.

Historical Background

Prior to 1991, the former Department of Posts and Telecommunications of South Africa provided telecommunications and post office services in South Africa on an exclusive basis. In 1991, the Government of South Africa transferred the entire telecommunications enterprise of the Department of Post and Telecommunications of South Africa to a new entity, Telkom, as part of a commercialization process intended to liberalize certain sectors of South Africa's economy. Between 1991, when Telkom was incorporated and 1996, when the South African Telecommunications Act was enacted, we were the exclusive provider of public switched telecommunications services, including international voice services in South Africa, acting pursuant to the now repealed South African Post Office Act, 44 of 1958. Telkom remained a wholly state owned enterprise until May 14, 1997, when the Government of South Africa sold a 30% equity interest in Telkom to Thintana Communications LLC, a Delaware limited liability company, 60% beneficially owned by SBC Communications, Inc. and 40% beneficially owned by Telekom Malaysia S.D.N. Berhard.

As part of the sale to Thintana Communications, the then Minister of Posts, Telecommunications and Broadcasting of South Africa entered into an agreement with Thintana Communications under which Thintana Communications undertook significant operational and managerial responsibilities and acquired the ability to exercise effective operational and managerial control over us until May 2002. Pursuant to the agreement, Thintana Communications had the power to staff certain management positions with individuals seconded to Telkom from SBC Communications and Telekom Malaysia. In addition, Thintana Communications and the Government were entitled to appoint a number of directors to Telkom's board of directors, based on their ownership of Telkom, and a number of our corporate actions were subject to specific approval by Thintana Communications and the Government or their board representatives. These matters generally included approval of business plans, annual

budgets, training programs and payment of dividends. Until May 2002, Thintana Communications was also entitled to appoint the majority of the members of Telkom's operating committee, thus granting it control over many of our significant operational matters. These matters generally included the preparation and implementation of business plans and annual budgets for approval by Telkom's board of directors and the performance of obligations and the exercise of rights under Telkom's public switched telecommunications services license.

On March 7, 2003, we completed our initial public offering and listing on the JSE and NYSE, pursuant to which the Government of South Africa sold a total of 154,199,467 ordinary shares, including 14,941,513 ordinary shares through the exercise of an over-allotment option.

BUSINESS OVERVIEW

Business Summary

Telkom is one of the largest companies registered in South Africa and one of the largest communications services provider on the African continent based on operating revenue and assets. We had consolidated operating revenue of R47.6 billion ($7.7 billion), profit for the year attributable to the equity holders of Telkom of R9.2 billion ($1.5 billion) and cash flow from operating activities of R9.5 billion ($1.5 billion) in the year ended March 31, 2006 and we had total assets of R57.5 billion ($9.4 billion) and equity attributable to the equity holders of Telkom of R29.2 billion ($4.7 billion) as of March 31, 2006. As of March 31, 2006, we had approximately 4.7 million telephone access lines in service and 99.9% of our telephone access lines were connected to digital exchanges. We offer business, residential and payphone customers a wide range of services and products, including:

- *fixed-line voice services*, including subscriptions and connections services, local, long distance, fixed-to-mobile and international voice services, interconnection and hubbing communications services, international voice over internet protocol services, subscription based value-added voice services and customer premises equipment rental and sales;
- *fixed-line data services*, including domestic and international data transmission services, such as point to point leased lines, ADSL services and packet-based services, managed data networking services and internet access and related information technology services;
- *directory and wireless data services* through our Telkom Directory Services and Swiftnet subsidiaries, respectively; and
- *mobile communications services*, including voice services, data services, value-added services and handset sales through Vodacom.

Vodacom is our mobile communications joint venture with Vodafone. Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 58% as of March 31, 2006 based on total estimated customers. Vodacom had 23.5 million customers as of March 31, 2006, of which 19.2 million were in South Africa. Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. Vodacom had consolidated revenue of R34.0 billion ($5.5 billion), net profit attributable to equity shareholders of R5.0 billion ($815 million) and cash flow from operating activities of R4.5 billion ($732 million) in the year ended March 31, 2006 and total assets of R24.8 billion ($4.0 billion) and equity attributable to equity holders of Vodacom of R8.4 billion ($1.4 billion) as of March 31, 2006.

Our Competitive Strengths

We believe that we are well-positioned to strengthen our business and successfully meet future competition based on the following:

We have the leading market position and are well placed to face competition in the South African fixed-line communications market.

We believe our leading market position and our strong brand recognition will enable us to successfully meet competition in the fixed-line communications market without significant future fixed-line roll-out. Key to achieving our objectives is our continued focus on rigorous cost management, efficiency improvements, deployment of key technologies and the successful implementation of our business strategy.

Customer retention is one of our key focus areas and we have undertaken the following actions to ensure we retain our customers:

- placed customer-centricity at the core of our corporate strategy and refocused our emphasis from a traditional communications organization to a customer-centric organization;
- focused our marketing initiatives on creating greater awareness of our range of consumer products and business solutions to ensure that our customers view us as a competitive and innovative telecommunications provider that caters to their individual needs;
- refocused our sales and marketing force into more specialized divisions and entered into long term contracts with a number of our larger corporate and business customers;
- improved the efficiency and quality of our network, including commencing the evolution of our fixed-line network to a next generation network with an enhanced internet protocol service capability;
- improved distribution channels through the launch of TelkomDirect and enhanced Vodashop distribution and improved our online distribution channel by offering fully automated purchasing and provisioning of TelkomInternet via the telkomsa.net website; and
- enhanced the value proposal to our customers by launching packages, such as PC bundle and Telkom Closer.

We have a fully digital fixed-line network that provides service to every major urban area in South Africa.

We believe our extensive digital fixed-line network places us in a strong position to compete with new providers of communications services as it enables us to sell value-added voice and data services. Since 1997, we have:

- modernized our fixed-line network, completed our fixed-line line roll-out program and, as of March 31, 2006, had 99.9% of our telephone access lines connected to digital exchanges;
- modernized and enhanced our fixed-line network's resiliency and performance through the deployment of synchronous digital hierarchy managed self-healing optical fiber rings and by increasing our use of optical fiber;
- deployed a national network operations center with the ability to proactively monitor our network and offer managed data networking services to global and corporate customers;
- deployed a national business solution center alongside our national network operations center and our data center which provides Telkom with a centralized information technology backbone;

- invested in the South Atlantic Telecommunications Cable-3/West African Submarine Cable/South Africa Far East, or SAT-3/WASC/SAFE, submarine cable system, which provides increased fiber optic transmission capability between South Africa and international destinations;
- enhanced our core and access network to meet increased demand for broadband services such as xDSL;
- supplemented our fixed line access network with point to multipoint wireless access and WiFi;
- enhanced our intelligent service platform capabilities through the introduction of softswitch technology; and
- evolved our internet protocol network to a carrier class multi protocol label switching, or MPLS, enabled network with quality of service that supports enhanced services such as internet protocol and virtual private networks.

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

Our network and resources enable us to provide customers with a wide range of integrated communications services, including voice services, data communications services, video services and internet services. We have undertaken the following actions to strengthen our data communications service capabilities and improve our integrated communications service offerings:

- successfully launched WiFi in 2005, ADSL in August 2002 and ISDN in 1995 and have introduced several flexible and cost effective options for these products;
- developed extensive experience in designing and operating customized data communications and managed data networking products and services, including managed local and wide area networks;
- established contracts with a number of leading communications equipment and software suppliers such as Amdocs, MDSI, Marconi, Alcatel, Siemens, Cisco Systems, Hughes Network Systems, Gilat and Sun Microsystems to provide fully integrated communications solutions over our core fixed-line network and satellites and have introduced several flexible and cost effective options for these products;
- deployed an extensive voice-over-internet protocol, or VoIP, network, and launched a voice over internet protocol regional clearing house to serve as a hub for voice traffic on the African continent; and
- successfully introduced a full range of private branch exchange, or PABX, systems sourced from LG Electronics, with the capability to integrate with IP and DSL technologies.

We have a highly qualified management team.

We have appointed a high quality management team. We believe our management team and employees have the required experience and knowledge to execute our business strategy in the face of increased competition. Rapidly changing technology, increasing specialization requirements and capacity gaps necessitate ongoing development and training. Telkom continues to invest significantly in its employees to ensure that the appropriate business skills are available to meet customer requirements. Telkom has developed detailed plans to identify high potential individuals within the company who can be developed for future senior management positions to ensure all future employee requirements are met. Telkom has demonstrated the strength of its succession and retention plans by appointing approximately 80% of senior management vacancies from within the company, utilizing the existing skills and potential of its current employee base.

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

Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 58% as of March 31, 2006 based on total estimated customers. Vodacom has an extensive network that covers approximately 97.5% of South Africa's population based on the last official census conducted in 2001 and approximately 69.4% of the total land surface area of South Africa as of March 31, 2006. Vodacom has a broad distribution network consisting of Vodacom owned shops and sales forces and independent dealers, franchises, national chains and Vodacom Direct shops as well as an extensive informal distribution channel servicing primarily the emerging market.

Vodacom is leveraging its successful experience in South Africa to selectively expand into other African countries, primarily in Sub-Saharan Africa.

Vodacom is pursuing future growth through selected mobile expansion initiatives in other African markets, primarily in Sub-Saharan Africa. Investments outside of South Africa are evaluated and monitored against key investment criteria, focusing primarily on countries with stable economic and political conditions or good prospects for growth, market leadership and profitability. Other key factors include Vodacom's ability to gain majority ownership, develop strong local partnership relationships and obtain non-recourse financing. Other African operations are branded under the "Vodacom" name.

Vodacom benefits from an experienced and long-serving management team complemented by its experienced international and local shareholders, Vodafone and us.

Vodacom has an experienced, long-serving management team with a record of innovation as the first commercial 3G network operator in South Africa, the first mobile communications network operator in the world to offer prepaid mobile communications services on an intelligent network platform and to offer its customers coverage across the whole of Africa where commercial roaming based on the Global System for Mobile, or GSM, communications technology is available. Vodacom was also the first South African mobile communications network operator to provide nationwide coverage in South Africa.

Vodacom benefits from the financial, operational and managerial expertise of its shareholders, Vodafone and us. Vodacom has an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services, such as the Vodafone Mobile Connect Card Vodafone live!, Mobile TV and BlackBerry®. Vodacom's alliance with Vodafone also provides Vodacom access to Vodafone's global research and development, High Speed Downlink Packet Access or HSDPA, which enhances 3G data speeds, and access to Vodafone's marketing and buying powers.

Our Group Strategy

Our vision is to be a leading customer and employee centered information and communications technology, or ICT, solutions service provider. We are focused on balancing the needs of all stakeholders while seeking long term sustainable and profitable growth. Our commitment to the socio-economic transformation of South Africa underpins this strategy.

In seeking to sustain the creation of value in response to developments in our dynamic market environment, our management has implemented certain shifts in our strategic emphasis. We are increasing our focus on customers and employees, while continuing to balance the needs of all stakeholders.

We intend to focus on the following primary imperatives to support growth:

- Enhancing customer satisfaction through customer centricity;
- Retaining revenue and generating growth;
- Evolving our fixed-line network to a next generation network in order to support profitable growth through prudent cost management;
- Engaging Telkom's employees;
- Repositioning Telkom stakeholder management to create healthy relationships with all stakeholders; and
- Capitalizing on the growing mobile communications market in South Africa and other African markets through Vodacom.

Enhancing customer satisfaction through customer centricity

Telkom's goal is to develop a customer-centric culture that permeates its entire organization through people, processes and systems, with the objective of making Telkom the customer's service provider of choice in the ICT market. In this regard, Telkom is aiming to improve its ratings in the South African Customer Survey Index performance year-on-year. Telkom's strategy in this area is to:

– introduce a companywide customer centric corporate culture;

– focus on customer facing staff to ensure they have the appropriate skills to deliver excellent customer service;

– review organization and work design to support and enable customer centricity;

– closer align rewards and recognition programs to customer centricity; and

– improve customer service.

Retaining revenue and generating growth

Telkom is pursuing growth opportunities beyond South African borders and is developing new offerings in its rapidly transforming market in order to counter and maintain diminishing revenue streams with new ones. Telkom's aim is to minimize the impact of competition from existing or new entrants and penetrate new markets to supplement diminishing revenue streams. Telkom's main focus will be to:

– aggressively grow data and converged internet protocol services;

– grow DSL penetration by focusing on price, content, speed and channels;

– develop and increase penetration of internet protocol and voice over internet protocol solutions; and

– grow annuity income by increasing sales of bundled product and service packages.

To ensure effective delivery of end-to-end service offerings and customer-specific solutions, Telkom intends to continuously assess the viability of developing alliances, partnerships, mergers and acquisitions with other leading players. Telkom will also seek group strategies to support its revenue retention and growth strategies. Telkom's focus will be in the following two areas:

– increasing synergies with Vodacom; and

– pursuing information technology acquisition opportunities.

Telkom is also seeking new value enhancing opportunities outside South Africa and the African continent to achieve continued growth. Telkom is pursuing the following primary opportunities:

– fixed/mobile;

– fixed only;

– mobile only;

– internet service provider services;

– data and broadband services; and

– value added network service provider services.

Telkom will seek to consider the following investment strategies when opportunities arise:

– strategic equity partnerships;
– acquisitions;
– joint ventures;
– management contracts; and
– acquisition of new licenses.

Evolving our fixed-line network to a next generation network in order to support profitable growth through prudent cost management

Telkom is seeking to evolve its network, operating support systems, information technology and skills fit to a next generation network in order to support its growth strategy, while expanding existing services and applying continuing prudent cost management. Telkom is adopting an evolutionary approach through incremental rollout of a next generation network gradually evolving from its legacy networks. Telkom's objectives and goals for 2010 are to:

– attain an information communications technology – capable next generation network;
– materially migrate to an internet protocol based next generation network to enable Telkom to provide a new range of services and converged voice, data and video products as a means of generating incremental revenues; and
– consolidate its network to create opportunities for cost savings.

Telkom believes that its next generation network strategy will enable it to:

– offer new products, services and features based on broadband delivered over a next generation network, thereby creating new sources of revenue;
– remain competitive in a rapidly growing market, where new next generation network - based services are created and offer faster time to market;
– migrate towards a network with reduced network infrastructure, thereby minimizing long-term capital expenditure and operating expenditure; and
– retain revenue for products, services and features delivered over its current network.

Engaging Telkom's people

Telkom is developing programs designed to enhance employee satisfaction in order to sustain a culture of engagement with its people. Telkom is focusing on:

– improving its employee engagement in order to become an employer of choice;
– improving performance and productivity;
– building its employee competencies and enhancing its leadership capabilities; and
– transforming towards a customer centric corporate culture.

Repositioning Telkom stakeholder management to create healthy relationships with all stakeholders

Telkom is seeking to effectively manage stakeholder relationships as it believes they are critical to corporate reputation management. Telkom's strategic objective and goals for 2010 are to:

– implement a coherent framework to reposition Telkom's stakeholder management in order to create healthy relationships and improve Telkom's reputation; and
– improve stakeholder management and effectively manage stakeholder risk, with particular emphasis on regulatory risk.

Capitalize on the growing mobile communications market in South Africa through Vodacom and expand into other African markets.

We intend to continue our participation in the South African mobile communications market through Vodacom and will support its strategic objectives. Vodacom's strategic objectives are to achieve sustainable growth in profits and cash flow, while maintaining its leading market position in South Africa, growing its operations in other African countries and establishing new operations in select African countries, primarily in sub-Saharan Africa. In order to achieve these objectives, Vodacom intends to pursue the following strategies:

– Achieve sustainable growth in profits and cash flows. Vodacom will continue to strive for growth in profits and cash flows by growing customer numbers, while carefully managing its existing customer base, customer acquisition and retention costs, capital expenditures and operating expenses. During previous years Vodacom has sought to streamline its relationships with its customers by increasing direct ownership of service providers. In the 2006 financial year it extended its service provider agreements with independent service providers for a further period of five years. In addition, on April 16, 2004, Smartphone SP (Pty) Limited, or Smartphone, Vodacom's 51% owned subsidiary, purchased an 85.75% equity stake in Smartcom (Pty) Limited, or Smartcom, and on February 1, 2005, Vodacom acquired the contract customer base, dealer agreements and five employees of Tiscali (Pty) Limited, or Tiscali. As of March 31, 2006, Vodacom directly controlled 83.5% of its contract customers and 99.3% of its prepaid customers in South Africa. Vodacom also acquired a 51% stake in Cointel for approximately R84.3 million, on August 1, 2005. Cointel's core business is providing value added and m-commerce services to the telecommunications industry. An offer to acquire the cellular business of Africell, an exclusive Vodacom dealer in South Africa, was accepted on April 6, 2006. The acquisition is subject to a number of conditions including approval by the South African Competition Commission.

– Expand data products. Vodacom intends to seek to continue to increase its revenue and profits by continuing to expand its range of offerings of value added data and content services over its network, such as multimedia messaging services, information and banking services and location based services through alliances with content service providers, while remaining focused on its core mobile business. Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom also entered into an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services, including the Vodafone Mobile Connect Card, Vodafone live!, Mobile TV and BlackBerry®. Vodacom also launched Vodafone World, which is Vodacom's new roaming price structure.

– Increase revenue from other African operations. Vodacom intends to increase revenue from its other African operations, initially by growing its existing operations in Africa, and by selectively acquiring additional mobile licenses or operators in other African markets in the future, focusing primarily on countries in sub-Saharan Africa that have stable economic and political conditions and good prospects for growth, market leadership and profitability. In its other African operations, Vodacom seeks to gain majority ownership, develop strong local partnership relationships and, if possible, obtain non-recourse financing. Vodacom's revenue from other African operations increased 30.8% in the year ended March 31, 2006 to R3.0 billion and 51.1% in the year ended March 31, 2005 to R2.3 billion from R1.5 billion in the year ended March 31, 2004, 50% of which is included in the Telkom Group's revenue.

Fixed-line Communications

Overview

Our fixed-line segment is our largest business segment and includes our fixed-line voice, data, directory services and wireless data services businesses. Our fixed-line services consist of:

- fixed-line subscription and connection services to postpaid, prepaid and private payphone customers using PSTN lines, including ISDN lines, and the sale of subscription based value-added voice services and customer premises equipment rental and sales;
- fixed-line traffic services to postpaid, prepaid and payphone customers, including local, long distance, fixed-to-mobile, international outgoing and international voice over internet protocol traffic services;
- interconnection services, including terminating traffic from South African mobile operators, terminating and transiting traffic from international operators and transiting traffic from mobile to international destinations;
- fixed-line data services, including domestic and international data transmission services, such as point to point leased lines, ADSL services, packet-based services, managed data networking services and internet access and related information technology services; and
- directory services, through our Telkom Directory Services subsidiary, and wireless data services, through our Swiftnet subsidiary.

Products and services

Subscriptions and connections

We provide postpaid, prepaid and private payphone customers with digital and analog fixed-line access services, including PSTN lines, ISDN lines, and wireless access between a customer's premises and our fixed-line network. Each analog PSTN line includes one access channel, each basic ISDN line includes two access channels and each primary ISDN line includes 30 access channels. Each ISDN line transmits signals at speeds of 64 kilobits per second per channel. Subscriptions to ADSL are included in our data services revenue. We were the first fixed-line operator in the world to provide prepaid service on a fixed-line network. Our prepaid service offers customers an alternative to the conventional postpaid fixed-line telephone service. All costs, including installation, telephone equipment, line rental and call charges, are paid in advance so that there are no monthly phone bills. We target our prepaid service mainly at first time home phone customers who do not have sufficient credit history and are located in areas where we can provide access to our network without significant additional investment. Customers who have previously had their telephone service disconnected due to non-payment are also encouraged to migrate to our prepaid service option in order to reduce future non-payments while satisfying demand for our services.

We also offer subscriptions to value-added voice services. We offer a broad range of value-added voice services on a subscription or usage basis, including call forwarding, call waiting, conference calling, voice-mail, toll free calling, ShareCall, which permits callers and recipients to share call costs, speed dialing, enhanced fax services and calling card services for payphones. These services complement our basic voice services and provide us with additional revenue while satisfying customer demand, enhancing our brand and increasing customer loyalty.

We provide payphone services throughout South Africa. As of March 31, 2006, we operated approximately 157,422 public payphones and approximately 8,024 private payphones, of which approximately 42% were coin operated and combination payphones and the remainder were card operated payphones.

The following table sets forth information regarding our postpaid and prepaid lines and payphones as of the dates indicated, excluding our internal lines:

	As of March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
	(in thousands, except percentages)				
Postpaid PSTN [(1)]	**3,048**	**3,006**	**2,996**	**(1.4)**	**(0.3)**
Business	1,377	1,386	1,412	0.7	1.9
Residential	1,671	1,620	1,584	(3.1)	(2.2)
Prepaid PSTN	**856**	**887**	**854**	**3.6**	**(3.7)**
ISDN channels	**601**	**664**	**693**	**10.5**	**4.4**
Payphones [(2)]	**175**	**169**	**165**	**(3.4)**	**(2.4)**
Total fixed access lines [(3)]	**4,680**	**4,726**	**4,708**	**1.0**	**(0.4)**

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

(2) Includes public and private payphones.

(3) Total fixed access lines are comprised of PSTN lines, including ISDN channels, and public and private payphones, but excluding internal lines in service. Each analog PSTN line includes one access channel, each basic ISDN line includes two access channels and each primary ISDN line includes 30 access channels.

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

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
	(in thousands, except percentages)				
Opening balance	**4,709**	**4,680**	**4,726**	**(0.6)**	**1.0**
Net line growth	**(29)**	**46**	**(18)**	**n/a**	**n/a**
Connections	804	675	615	(16.0)	(8.9)
Disconnections	(833)	(629)	(633)	(24.5)	0.5
Closing balance	**4,680**	**4,726**	**4,708**	**1.0**	**(0.4)**
Churn (%)	17.7	13.4	13.4	(24.3)	0.0

Connections include new line orders resulting primarily from changes in service and, to a lesser extent, new line roll-out. Disconnections include both customer initiated disconnections and Telkom initiated disconnections. Included in disconnections and churn are those customers who have terminated their service with Telkom and subsequently subscribed to a new service with Telkom as a result of relocation of premises or change of subscription to a different type of service. The decrease in churn in the year ended March 31, 2005 is directly related to the lower level of disconnections, real estate development contracts in affluent areas, marketing campaigns and lengthened prepaid suspension time.

In the 2006 financial year Telkom continued to focus on customer retention through discounted offers, relaxation of credit management policies and targeted marketing campaigns, including Project Reconnect and Project JIKA, which were launched to stem line loss. Telkom continues to focus on offering value-for-money, by launching packages like PC bundle and Telkom Closer. Although these campaigns have been highly successful, Telkom's line base declined by 0.4% in the 2006 financial year. The decrease in the number of subscriber lines in the 2006 financial year was mainly in the lower revenue generating areas such as residential postpaid PSTN lines and prepaid PSTN lines, partially offset by an increase in ISDN channels and business postpaid PSTN lines. The decrease also includes approximately 5,800 lines that migrated from ISDN Basic Rate to ADSL, which

amounted to a net loss of approximately 5,800 channels because ISDN Basic Rate lines include two channels, while ADSL service includes only one channel. The higher revenue generating areas, such as corporate and business lines, showed a positive growth of 3.7% in the 2006 financial year. The decrease in the number of residential postpaid PSTN lines in the 2006 financial year was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and lower connections. The increase in ISDN channels and ADSL services was primarily driven by increased demand for higher bandwidth and functionality. This together with the expansion of DSL 192, which was launched in February 2005, and DSL 1024, which was launched in September 2005, added to the positive growth in ADSL services in the 2006 financial year.

Telkom focused on connecting and reconnecting fixed-line customers through discounted offers, targeted marketing campaigns and the prudent relaxing of selected credit management policies in the 2005 financial year. Telkom is focused on offering value-for-money and is increasingly launching bundled minute packages and calling plans such as XtraTime and Surf Anytime. These actions led to a net line growth of 1.0%, excluding Telkom internal lines, in the 2005 financial year. The increase in the number of subscriber lines in the 2005 financial year was mainly as a result of fewer disconnections than in the prior year and increased ISDN, prepaid PSTN lines and business postpaid PSTN lines, partially offset by lower residential postpaid PSTN lines and lower connections. The decrease in the number of residential postpaid PSTN lines in the 2005 financial year was primarily as a result of customer migration to mobile and data services and our prepaid PSTN service and lower connections, partially offset by lower disconnections. The increase in the number of postpaid ISDN channels was driven by increased demand for higher bandwidth and functionality. The increase in prepaid lines was mainly due to our increased marketing efforts for our prepaid telephone services, particularly to first-time residential customers with inadequate or no credit histories, and postpaid customers encouraged to migrate to prepaid services due to late payments and credit difficulties.

We also offer telecommunications equipment rentals and sales, such as telephones and private branch exchange systems, or PABX systems, related post-sales maintenance and service for residential and business customers in South Africa. The market in South Africa for such equipment and systems, commonly known as customer premises equipment, is characterized by high competition and low profit margins. We believe, however, that the supply and servicing of customer premises equipment is an essential element of providing a full service to our customers.

Traffic

We offer local, long distance, fixed-to-mobile, international outgoing and international voice over internet protocol services to business, residential and payphone customers throughout South Africa at tariffs that vary depending on the destination, distance, length, day and time of call. Local traffic services are for calls made to destinations less than 50km from origination. Long distance traffic services are for calls made to national destinations greater than 50km from origination. We provide international outgoing telephone services, including both voice and data traffic. We provide direct international dialing access to approximately 230 destinations. In the 2004 financial year, we launched a voice over internet protocol product to customers operating international call centers.

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

	Year ended March 31,			2005/2004 % change	2006/2005 % change
	2004	2005	2006		
	(in thousands, except percentages)				
Local [1]	20,547	19,314	18,253	(6.0)	(5.5)
Long distance [1]	4,616	4,453	4,446	(3.5)	(0.2)
Fixed-to-mobile	3,980	3,911	4,064	(1.7)	3.9
International outgoing	427	415	515	(2.8)	24.1
International voice over internet protocol	25	89	83	256.0	(6.7)
Total traffic	**29,595**	**28,182**	**27,361**	**(4.8)**	**(2.9)**

(1) Local and long distance traffic includes internet dial-up traffic.

Traffic was adversely affected in both the 2006 and 2005 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up internet traffic being substituted by our ADSL service, as well as the decrease in the number of residential postpaid PSTN lines and increased competition in our payphone business.

Interconnection services

We provide interconnection services to the three mobile operators, Vodacom, MTN and Cell C, and certain other entities that lawfully provide licensed telecommunications services in South Africa consisting of call termination and call transit, as well as access, through our network, to other services, including FreeCall 080, ShareCall 0860 and HomeFree, emergency services and directory enquiry services. We will also be required to provide interconnection services to the second national operator and to other licensees.

We also provide interconnection services to international operators in respect of incoming international calls and hubbing traffic through South Africa to other countries. We are seeking to establish ourselves as the principal international telecommunications hub for Africa through our investments in undersea cables and our network and our arrangements with other operators in Africa in order to continue to increase international hubbing revenue.

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

	Year ended March 31,			2005/2004 % change	2006/2005 % change
	2004	2005	2006		
	(in thousands, except percentages)				
Domestic mobile interconnection traffic	2,159	2,206	2,299	2.2	4.2
International interconnection traffic	1,188	1,318	1,355	10.9	2.8
Total	**3,347**	**3,524**	**3,654**	**5.3**	**3.7**

Domestic mobile interconnection traffic includes traffic from mobile operators terminating on our network, international outgoing calls from mobile networks and access to other services such as emergency services and directory enquiry services. The increase in domestic mobile interconnection traffic in the years ended March 31, 2006 and 2005 was primarily due to an overall increase in mobile calls as a result of growth in the mobile market, partially offset by increased mobile-to-mobile calls bypassing our network.

International interconnection traffic consists of international termination traffic and international hubbing traffic. In the year ended March 31, 2006, international interconnection traffic increased primarily due to volume discounts and a settlement in the 2006 financial year preventing an illegal operator from carrying international incoming traffic. In the year ended March 31, 2005, international interconnection traffic increased mainly as a result of more traffic terminating on our network due to increased activity of callback operators.

Data communications services

We offer a wide range of national and international data communications services, including:

- data transmission services, such as point to point leased lines, ADSL and packet-based services;
- managed data networking services;
- global services; and
- internet access and related information technology services.

Data transmission services

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

Leased lines. We provide national and international leased lines in South Africa. Leased lines are fixed connections between locations, which are secure and exclusive to the user, and are mainly used for high volume data or multimedia transmission. Leased lines are our principal data transmission service and include Diginet, Diginet Plus and Megaline services. We also provide leased lines to broadcasters for audio and video services. Our leased line customers pay an initial installation charge and a recurring fee based on the type, length and capacity of the leased line. Leased line charges have decreased in both the 2006 and 2005 financial years and we expect that competition may increase pressure on prices in the future.

With the growth in traffic carried on the mobile networks, a need was identified for the deployment within these networks of transmission links with transmission speeds higher than the 2 Mbps provided by existing agreements. We entered into broadband fixed link leasing agreements with Vodacom and MTN in the 2004 financial year and with Cell C in the 2005 financial year. These agreements offer speeds of 45 Mbps and 155 Mbps and include formalized service level agreements and a term and volume discount structure, as a counter to the competitive challenges that are expected to occur in this area of the business.

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

Leased Line	Bandwidth
Diginet	2.4 Kbps to 64 Kbps
Diginet Plus	128 Kbps to 2 Mbps
ATM Express	2 Mbps to 155 Mbps
Broadcasting	
Analogue audio	7.5 or 15KHz
Analogue video	70 MHz
Digital	2 Mbps to 155 Mbps

ADSL Services. ADSL allows the provisioning of high speed connections over existing copper wires using digital compression. We have different ADSL services available, aimed at the distinct needs of our customers. The following table indicates our product offerings as of March 31, 2006:

	HomeDSL 192	HomeDSL 384	HomeDSL 512	HomeDSL 1024	BusinessDSL 512	BusinessDSL 1024
Downstream speed	192 Kbps	384 Kbps	512 Kbps	1024 Kbps	512 Kbps	1024 Kbps
Upstream speed	64 Kbps	128 Kbps	256 Kbps	256 Kbps	256 Kbps	256 Kbps

We also offer ADSL packages, including a free modem, with a 24 month contract. The HomeDSL 512 and HomeDSL 384 are also available in packages, branded HomeDSL 512 Premium and HomeDSL 384 Supreme, which are bundled with line rental and include a free modem, free Callmore voice minutes and other value added services such as free WiFi minutes on a 24 month contract.

Packet-based services. Packet-based services are based on a statistical multiplexing technique that allows customers to share bandwidth more cost effectively based on a virtual private network concept. Our packet-based services include packet-switched services (X.25), frame relay services, asynchronous transfer mode (ATM) services and internet protocol (IP) services.

Our packet-switched service is Saponet-P, which allows data communications for a range of applications, such as database searches, electronic fund transfers and e-mail. We use the X.25 protocol, which is a worldwide standard for transmitting data using packet-switched networks. Packet-switched services are based on a mature technology and account for a significant but declining amount of our data transmission service revenue. Although traffic still has shown some growth in recent years, we are increasingly offering migration to other packet based services, such as frame relay based services, asynchronous transfer mode based services and internet protocol services.

Our frame relay service, branded as Frame Express, is a high speed open protocol that is more efficient than X.25 packet-switching and is well suited for data intensive applications, such as connecting local area networks. Instead of leasing high capacity lines in order to accommodate occasional or intermittent high data volumes, customers using frame relay pay for capacity sufficient to satisfy their average requirements with the flexibility to use more than average capacity during peak periods. Frame relay based services currently account for a relatively larger percentage of our data transmission service revenue. Growth in frame relay based services is however declining as a result of the industry trend to provide all new solutions based on internet protocol. Our internet protocol based solutions also cater for the growing number of applications that require the speed and flexibility of more advanced technologies.

Our asynchronous transfer mode based services include ATM Express, which we launched in 2002, and Megaline Plus. ATM Express provides digital transmission services for wide area networks at speeds from 2 megabits per second up to 155 megabits per second. ATM Express provides a medium for companies to transmit high volumes of information at high speeds over their wide area network with high quality and reliable connections. Voice, video and data applications can be

supported simultaneously over a connection. Megaline Plus is a broadband service providing for the carrying of voice, video and data at a constant bit rate across our asynchronous transfer mode network. ATM Express and Megaline Plus serve as an integral component of our integrated virtual private network service offering that allows for the convergence of voice, data, video, e-commerce and web services across a single access medium over our network. We expect our asynchronous transfer mode based service revenue to grow as a result of customers' growing demand for bandwidth, flexibility and reliability.

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

Managed data networking services

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

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

Managed data networking services are billed on a monthly basis and vary by customer depending on the particular services provided and the number of network sites under management. The following table sets forth information regarding the number of managed network sites for each of our managed data networking services as of the dates indicated.

	As of March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Terrestrial based	4,794	6,425	9,492	34.0	47.7
Satellite-based	4,267	5,536	7,395	29.7	33.6
Total managed network sites	**9,061**	**11,961**	**16,887**	**32.0**	**41.2**

Global services

Our portfolio of global international products consists of a number of different products. We have international private line circuits, which are our Diginet equivalent to international destinations with bandwidths ranging from 2.4 Kbps up to 155 Mbps. The international private line circuits use both cable infrastructures, such as submarine cables, or satellite infrastructure. This product is complimented by our three global alliances with Infonet, Equant and BT, which are used to offer customers connectivity based on these companies' global networks. Our global alliances have coverage throughout the world and it is easier for customers to use them from an ordering, installation and support point of view, as they have physical presence or formally appointed partners in each

country. Due to the packet-based nature of these global networks, the cost efficiencies inherent in these networks can be passed on to customers to ensure more affordable services.

Internet access services and other related information technology services

We are one of the leading internet access providers in South Africa in the retail and wholesale internet access provision markets. We also package our TelkomInternet product with personal computers, ADSL and ISDN services, as well as our satellite access products, SpaceStream Express and SpaceStream Office.

Our South African internet eXchange, or SAIX, is South Africa's largest internet access provider offering dedicated and dial-up, ADSL and satellite internet connectivity to internet service providers and value added network providers. SAIX has offered fixed-line network internet access through dial-up service since 1995. SAIX derives revenue for its access services primarily from subscription fees paid by internet service providers and value added network providers for access services. The SAIX customer base has expanded beyond only service providers and value added network providers, and now includes Vodacom and other operators in Africa. These include incumbents in Mozambique, Namibia, Angola, Zimbabwe and Lesotho.

In the retail market, TelkomInternet offers a range of internet services to residential and business customers. These services include analog and ISDN dial-up services, ADSL services, TelkomInternet powered by Satellite services and dedicated internet access services. The access services are complemented by a range of value-added services, including e-mail services, domain name services and hosting services. All TelkomInternet access bundles include e-mail services, Web based e-mail access, anti-virus and anti-SPAM services, exclusive content through our TelkomInternet web site and 24 hour technical support services.

In October 2003, Telkom launched full commercial service of a broadband based internet access powered by satellite. It is a Vsat product offering that allows effective sharing of the satellite platform making the service more affordable. Following the successful introduction of TelkomInternet via satellite, Telkom expanded its SpaceStream Express product into Africa branded as SpaceStream Africa.

In July 2005, TelkomInternet introduced a range of internet access and personal computer bundles to the consumer market. These bundles included a personal computer, internet access, internet call minutes, and various traditional Telkom services. During this year TelkomInternet also introduced toll free technical support.

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

	As of March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Wholesale					
Internet leased lines-equivalent 64kbps	7,588	13,470	16,832	77.5	25.0
Dial-up ports	14,329	15,375	12,889	7.3	(16.2)
Retail					
Internet dial-up subscribers	142,208	202,410	228,930	42.3	13.1
Internet ADSL subscribers	8,559	22,870	53,997	167.2	136.1
Internet satellite subscribers	192	1,427	1,981	643.2	38.8

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

Information technology and related services. We have expanded our data offering to selected information technology services that include local area network services, basic hosting, data center hosting, managed infrastructure hosting, web application hosting, security services, disaster recovery, storage services and application service provider hosting. Our security services include firewalls, intrusion detection, and spam and virus protection.

We also offer e-commerce products and services, including electronic data interchange, hosted procurement market place, payment gateways, electronic storefronts, electronic bill presentment and message translation services. CyberTrade, our web based e-commerce service provider, provides users with a secure platform to perform online banking and stock market trading, to buy and sell goods and products from electronic merchants and to access critical information.

Directory and other services

Directory services. We own 64.9% of Telkom Directory Services, the largest directory publisher in South Africa providing white and yellow pages directory services and electronic white pages. In the year ended March 31, 2006, Telkom Directory Services published approximately 7.5 million white and yellow directories. Telkom Directory Services also provides electronic yellow pages and value added content through full color advertisements. Telkom Directory Services has improved the accessibility and distribution of directories through door-to-door delivery and electronic media. We also provide national telephone inquiries and directory services.

Wireless data application services. We own 100% of Swiftnet, which operates under the name Fastnet Wireless Service. Fastnet is a wireless network providing asynchronous wireless access on our X.25 network, Saponet-P, to its customer base. This service has been expanded by Swiftnet to offer a GPRS driven solution using a dual sim card allowing the customer to roam on both the Vodacom and MTN GPRS South African networks. Services include retail credit card and check point of sale terminal verification, telemetry, security and vehicle tracking.

Fees and tariffs

Tariff rebalancing

We made significant progress in rebalancing our fixed-line tariffs. Telkom's tariff rebalancing program was historically aimed at better aligning its fixed-line traffic charges with underlying costs and international norms. As a result of its efforts, the ratio of tariffs for long distance calls to all destinations over 200 km compared to tariffs for local calls declined from 13.2:1 as of March 31, 1997 to 2.7:1 as of March 31, 2002. In the future, Telkom expects that its tariff rebalancing will focus more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs.

Regulations made under the Telecommunications Act impose a price cap on a basket of Telkom's services, including installations; prepaid and postpaid line rental; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; our Diginet product; and our Megaline product. 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 Mb/s of capacity and the rental and installation of business exchange lines. Approximately 80% of Telkom's operating revenue in the year ended March 31, 2005 was included in this basket, compared to approximately 66% of Telkom's operating revenue in the year ended March 31, 2006. The reason for the decrease was due to a change in methodology of the amount included in the basket for purposes of our filing with ICASA in the 2006 financial year to exclude the mobile termination fees for fixed-to-mobile calls. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had

exclusivity may not be used to subsidize competitive services. The price cap operates by restricting the annual percentage increase in revenues from all services included in the basket that are attributable solely to price changes to annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft regulations have also been published for comment on the pricing and provision of ADSL services, which would, among other things, prohibit Telkom from charging a monthly rental for providing ADSL service and limit Telkom to charging only an installation fee for such service.

ICASA approved a 2.2% increase in the overall tariffs for services in the basket effective January 1, 2004, a 0.2% increase in the overall tariffs for services in the basket effective January 1, 2005 and a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005. Due to a delay in the finalization of the tariff regulations, ICASA allowed us to implement our new tariffs effective September 1, 2005. In line with Telkom's strategy of delivering excellent service to customers at competitive prices, on June 5, 2006 Telkom announced average price reductions on its regulated basket of products and services of 2.1%, effective August 1, 2006. As a result, from August 1, 2006, the following price changes will be effective:

• ADSL rental	24% average decrease
• Local call charges	No change
• Long distance call charges	10% decrease
• International call charges	10% average decrease
• Data products	9% average decrease
• Subscription: analog line rental	8% average increase

See Item 3. "Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom's revenue and net profit could decline if wholesale price controls are imposed on it above and "–Regulation and License Requirements" below. All tariffs include value added tax at a rate of 14%.

Subscription and connection tariffs

We provide reduced installation charges to most packaged services and provide discounts for other customer specific solutions. In order to attract high volume corporate and business customers we offer volume and term programs on certain data products that fix rates at the lower of the prevailing rates or the rate at the time of the contract. We also offer term discounts on our ISDN primary service.

The following tables show our subscriptions and connections tariffs as of January 1, 2004, January 1, 2005 and September 1, 2005 and our proposed tariffs as of August 1, 2006 based on our tariff filing with ICASA in June 2006.

	As of January 1, 2004			
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN30 Primary
	(ZAR, including value-added tax)			
Business				
Installation	274.35	n/a	384.75	20,721.00
Monthly rental	108.80	n/a	216.82	3,264.00
Residential				
Installation	274.35	158.40	384.75	n/a
Monthly rental	81.90	50.80	184.28	n/a

	As of January 1, 2005			
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN30 Primary
	(ZAR, including value-added tax)			
Business				
Installation	291.60	n/a	409.00	22,026.00
Monthly rental	115.65	n/a	230.50	3,469.60
Residential				
Installation	291.60	168.40	409.00	n/a
Monthly rental	87.05	54.00	195.90	n/a

	As of September 1, 2005			
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN30 Primary
	(ZAR, including value-added tax)			
Business				
Installation	316.10	n/a	443.35	23,876.00
Monthly rental	122.60	n/a	230.50	3,677.87
Residential				
Installation	316.10	182.50	443.35	n/a
Monthly rental	92.28	57.25	195.90	n/a

	As of August 1, 2006			
	PSTN Postpaid	PSTN Prepaid	ISDN2 Basic	ISDN30 Primary
	(ZAR, including value-added tax)			
Business				
Installation	342.30	n/a	480.10	25,855.30
Monthly rental	132.75	n/a	230.50	3,982.59
Residential				
Installation	342.30	197.60	480.10	n/a
Monthly rental	99.92	57.25	166.52	n/a

Traffic tariffs

Local, long distance and fixed-to-mobile

When setting local and long distance call pricing, a number of variables are considered in order to generate an optimal level of revenue and to balance demand and affordability within our price cap limitations. These include the duration, the distance between the points of origin, the destination, the time of day and the day of the week of the call.

For calls from our fixed-line customers to mobile users, we bill our customers the standard retail tariff, retain a fixed portion of the retail tariff and pay the remainder of the tariff to the mobile operator.

The following table sets forth our postpaid and prepaid traffic tariffs as of January 1, 2004, January 1, 2005 and September 1, 2005 and our proposed tariffs as of August 1, 2006 based on our tariff filing with ICASA in June 2006.

	As of January 1, 2004		As of January 1, 2005		As of September 1, 2005		As of August 1, 2006	
	Peak rates[1]	Off peak rates[2]	Peak rates[1]	Off peak rates[2]	Peak rates[1]	Off peak rates[2]	Peak rates[1]	Off peak rates[2]
	(ZAR, including value-added tax)							
Postpaid services (residential and business)								
Local minimum call charge (0 – 50km) for first unit [3]	0.56	0.56	0.59	0.59	0.59	0.59	0.59	0.59
Local call rate per minute (0 – 50km) after first unit [3]	0.38	0.15	0.40	0.16	0.38	0.16	0.38	0.16
Long distance minimum call charge (>50km) for first unit [4]	0.99	0.99	0.89	0.89	0.80	0.80	0.72	0.72
Long distance call rate per minute (>50km) after first unit [4]	0.99	0.50	0.89	0.45	0.80	0.40	0.72	0.36
Fixed-to-mobile call rate per minute [5]	1.84	1.13	1.89	1.17	1.89	1.17	1.89	1.17
Prepaid services (residential only)								
Local minimum call charge (0 – 50km) for first unit [6]	0.56	0.56	0.59	0.59	0.59	0.59	0.62	0.62
Local call rate per minute (0 – 50km) after first unit [6]	0.43	0.17	0.46	0.18	0.43	0.18	0.45	0.19
Long distance minimum call charge (>50km) for first unit [7]	0.99	0.99	0.89	0.89	0.80	0.80	0.84	0.84
Long distance call rate per minute (>50km) after first unit [7]	1.17	0.59	1.06	0.53	0.95	0.48	1.00	0.50
Fixed-to-mobile call rate per minute [5]	1.84	1.13	1.89	1.17	1.89	1.17	1.89	1.17

(1) Monday to Friday 7 a.m. to 7 p.m. for local and long distance calls. Monday to Friday 7 a.m. to 8 p.m. for fixed-to-mobile calls.

(2) Monday to Thursday 7 p.m. to 7 a.m. the next morning, and Friday 7 p.m. to Monday 7 a.m. for local and long distance calls. Monday to Thursday 8 p.m. to 7 a.m. the next morning, and Friday 8 p.m. to Monday 7 a.m. for fixed-to-mobile calls.

(3) The first unit for peak calls is 94 seconds (January 1, 2004 and 2005: 89 seconds) and for off peak calls is 223 seconds

(4) The first unit for peak calls is 60 seconds and for off peak calls is 120 seconds.

(5) Calls are charged in increments of 60 seconds for the first minute and in increments of 30 seconds thereafter.

(6) The first unit for peak calls is 83 seconds (January 1, 2004 and 2005: 78 seconds) and for off peak calls is 194.5 seconds.

(7) The first unit for peak calls is 51 seconds and for off peak calls is 101 seconds.

International outgoing

Our outgoing international call tariffs and payments are based on settlement rates negotiated with other international carriers on a bilateral basis. The following table sets forth our international outgoing traffic tariffs per minute as of January 1, 2004, January 1, 2005 and September 1, 2005 and our proposed tariffs as of August 1, 2006 based on our tariff filing with ICASA in June 2006 for residential and business customers to the ten most frequently called countries based on traffic.

	As of January 1, 2004		As of January 1, 2005		As of September 1, 2005		As of August 1, 2006	
	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)
	(ZAR, including value-added tax)							
United Kingdom	3.12	2.81	1.70	1.50	1.70	1.50	1.40	1.30
United States	3.33	3.02	1.70	1.50	1.70	1.50	1.20	0.99
Namibia	1.66	1.30	1.66	1.30	1.66	1.30	1.30	1.30
Zimbabwe	1.66	1.30	1.66	1.30	1.66	1.30	1.60	1.30
Botswana	1.66	1.30	1.66	1.30	1.66	1.30	1.64	1.28
Australia	3.01	2.70	1.70	1.50	1.70	1.50	1.50	1.50
Germany	2.60	2.39	2.00	1.80	2.00	1.80	2.00	1.94
Swaziland	1.66	1.30	1.66	1.30	1.66	1.30	1.66	1.30
India	6.63	5.98	2.30	2.00	2.30	2.00	1.80	1.80
Mozambique	2.86	2.50	2.70	2.50	2.70	2.50	2.50	2.50

(1) Monday to Friday 8 a.m. to 8 p.m.

(2) Monday to Thursday 8 p.m. to 8 a.m. the next morning, and Friday 8 p.m. to Monday 8 a.m.

Interconnection tariffs

Interconnection termination rates for mobile operators are distance independent and are based on aggregated measurements of traffic crossing the points of interconnection measured on a per-second basis. For national calls from mobile users to fixed-line customers, the mobile operator pays us a termination fee. The risk of uncollectibles is carried by the originating operator. For incoming international calls destined for mobile users, we pay the mobile operator a termination rate which is the same as the rate we pay for fixed-to-mobile calls, and for outgoing international calls originating from mobile users, the mobile operators pay to us our standard retail rate for international calls, less a discount.

Our current interconnection tariffs are set out in interconnection agreements negotiated and agreed by us and the other operators. ICASA is entitled to issue, and has issued, regulations relating to interconnection between South African licensed operators. Telkom's interconnection agreements provide for annual increases in the portion of fixed-to-mobile tariffs retained by Telkom and the termination rates payable by Telkom to the mobile operators as well as the termination rates payable to Telkom from the mobile operators for mobile-to-fixed calls.

The following table sets forth our fixed-to-mobile retail interconnection tariffs, including our termination rates paid to mobile operators and our retention rates, and our mobile-to-fixed interconnection tariffs as of January 1, 2004, January 1, 2005 and September 1, 2005 and our proposed tariffs as of August 1, 2006 based on our tariff filing with ICASA in June 2006. Fixed-to-mobile tariffs are billed for the first 60 seconds and 30 second increments thereafter. Termination rates paid to mobile operators are paid on a per second basis.

	As of January 1, 2004		As of January 1, 2005		As of September 1, 2005		As of August 1, 2006	
	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)	Peak rates(1)	Off peak rates(2)
	(ZAR, including value-added tax)							
Fixed-to-mobile retail rate	**1.84**	**1.13**	**1.89**	**1.17**	**1.89**	**1.17**	**1.89**	**1.17**
Termination rate paid to mobile operators	1.40	0.86	1.43	0.88	1.43	0.88	1.43	0.88
Retention rate	0.44	0.27	0.46	0.29	0.46	0.29	0.46	0.29
Mobile-to-fixed retail rate								
Termination rate paid to Telkom	0.29	0.16	0.31	0.17	0.31	0.17	0.31	0.17

(1) Monday to Friday 7 a.m. to 8 p.m.

(2) Monday to Thursday 8 p.m. to 7 a.m. the next morning and Friday 8 p.m. to Monday 7 a.m.

Data tariffs

We charge monthly fees for leased lines, which vary based on bandwidth and distance, and monthly service charges for ADSL, which are not distance dependent. The following table sets forth the monthly tariffs for our data leased lines using 20 km distances and ADSL service as of January 1, 2004, January 1, 2005 and September 1, 2005 and our proposed tariffs as of August 1, 2006 based on our tariff filing with ICASA in June 2006. Subscription to ADSL service also requires the subscription to a PSTN postpaid line.

	As of January 1, 2004	As of January 1, 2005	As of September 1, 2005	As of August 1, 2006
	(ZAR, including value-added tax)			
ADSL installation charges				
HomeDSL192/384/512/ 1024 (1)	404	404	404	437.50
BusinessDSL 512/1024 (1)	404	404	404	437.50
ADSL access rental charges				
HomeDSL192	n/a	329	270	245
HomeDSL 384	449	449	359	245
HomeDSL 512	680	680	477	362
BusinessDSL 512	800	800	477	362
HomeDSL 1024/BusinessDSL 1024 (1)	n/a	n/a	680	516
Diginet (64 Kbps)	2,196	2,236	2,214.11	2,160.30
Diginet Plus (512 Kbps)	6,165	6,165	5,244.68	5,067.07
ATM Express				
2 Mbps – Bronze	15,419	13,828	11,952.90	10,826.58
2 Mbps – Silver	20,321	18,046	15,418.50	14,120.04
34 Mbps – Silver	117,882	104,572	89,613.12	81,058.56
140 Mbps – Silver	389,909	345,591	296,246.10	255,460.32

(1) HomeDSL 1024 and BusinessDSL 1024 were launched in September 2005. These amounts represent the tariffs at date of service launch.

The monthly tariffs for ADSL services were reduced as of March 31, 2005 and August 1, 2005 and are scheduled to be further reduced as of August 1, 2006 as follows:

	As of March 31, 2005	As of August 1, 2005	As of August 1, 2006
	(ZAR, including value-added tax)		
ADSL access rental charges			
HomeDSL 192	329	270	245
HomeDSL 384	449	359	245
HomeDSL 512	599	477	362
Home DSL 1024 [(1)]	n/a	680	516
BusinessDSL 512	699	477	362
Business DSL 1024 [(1)]	n/a	680	516

(1) Home DSL and Business DSL 1024 were launched in September 2005. These amounts represent the tariffs at date of service launch.

Managed data networking services are billed on a monthly basis and vary by customer depending on the particular services provided and the number of network sites under management.

Sales and marketing

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

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

Business customers

Business customers are comprised of global and corporate customers, business and government customers and wholesale customers. We have separate sales and marketing departments to service each of the sub-categories within our business customer category. Our business customer category accounted for approximately 74% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2006 and approximately 43.7% of our total fixed access lines as of March 31, 2006.

Global and corporate

Global and corporate customers comprise over 200 of South Africa's largest financial, retail, manufacturing and mining companies with domestic and international operations. Global and corporate customers accounted for approximately 15.8% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2006 and approximately 11.6% of our total fixed access lines as of March 31, 2006. We have increased our sales and marketing efforts aimed at our large global and corporate customers in order to continue to improve customer loyalty. We offer tailored packaged solutions and seek to enter into long-term relationships with our global and corporate customers in order to maintain our leadership position in this customer market. We market and sell our products and services to these customers primarily through corporate account managers, supported by a team of specialists in the field of pre-sales consulting, project management and post-sales service managers.

Business and government

Business and government customers comprise approximately 550,000 large, medium and small business and governmental accounts. We estimate that Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line operating revenue, excluding directories and other revenue, in the year ended March 31, 2006 and approximately 4.0% of our total fixed access lines as of March 31, 2006. We also offer tailored packaged solutions and seek to enter into long term relationships with our government and larger business customers. In addition, we established a customer relation program to focus on retaining business customers. We market and sell our products and services to these customers primarily through customer account managers and sales representatives, the Telkom Business Call Center and customer service branches. As of March 31, 2006, we had approximately 131 customer service branches and Telkom Direct shops located throughout South Africa to assist our business customers in finding the products and end user equipment that best fits their needs. In the 2006 and 2005 financial years, we have been successful in signing our business customers to long term service agreements. We have also been successful in growing our ISDN, internet access, PABX, satellite and data, including ADSL, products and services.

Wholesale

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

Residential customers

Residential customers comprise both prepaid and postpaid residential customers using PSTN, ISDN and ADSL services. Residential customers accounted for approximately 24% of our total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2006 and approximately 52.8% of our total fixed access lines as of March 31, 2006. Prepaid residential customers accounted for approximately 34.3% of our residential fixed access lines as of March 31, 2006, compared to approximately 34.5% of our residential fixed access lines as of March 31, 2005.

We are seeking to compete in the residential market by offering communications packages focused on improving convenience and security to enhance consumers' lifestyles, while at the same time increasing revenue per customer. We intend to continue to introduce calling plans that target high use customers and are designed to increase consumers' value for money. We market and sell our residential products through our customer call centers, customer service branches, Vodacom's customer service branches and Telkom Direct shops, the South African Post Office, independent

distributors and vendors and through telemarketing. We are focused on increasing the penetration of our ADSL services to retail and high-end residential customers through targeted direct advertising to high internet usage subscribers.

Payphone customers

Payphones comprise our public and private payphone units. Payphones accounted for approximately 2% of our total fixed-line revenue, excluding directories and other revenue, in the year ended March 31, 2006 and approximately 3.5% of our total fixed access lines as of March 31, 2006.

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

Customer care and service

Telkom has placed customer-centricity at the core of its corporate strategy and refocused its emphasis from a traditional communications organization to a customer-centric organization. Telkom reviewed its organization and work design to support customer centricity and has restructured its employees around organizational boundaries in order to better respond to its customers, tailored systems to its customers' needs and built meaningful customer experiences, thereby aligning the organization with its customers.

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

Through our ambassador program, participating Telkom management employees adopt a few small and medium businesses to strengthen relationships with these customers in a non sales environment. An ambassador acts as a single point of contact for those customers in the event of any queries relating to our products and services. In addition, our Telkom business call center provides customer support for our medium and small business customers. We also offer a broad range of internet based customer care tools to allow customers to manage their relationship with us more conveniently. The Telkom and TelkomInternet websites offer online services such as fault reporting for voice services, automated online registration and password changes for internet services, electronic bill presentation and an email query facility.

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

Network

Network quality

We have made significant investments in our national network operations center and our new data center in order to increase our ability to identify and anticipate future customer needs more rapidly and to provide the appropriate solutions and services. In order to take advantage of economies of scale in scheduling, we have consolidated our six voice installation and fault management centers into two centers to address faults, installation and service appointment scheduling and have consolidated our six data installation and fault management centers into two centers.

During the 2005 financial year, we changed the method in which we measure service delivery. In the past the focus was primarily based on quantitative measures. We added qualitative measures to the calculation. Additionally we segmented our service delivery measures to be more in line with how our market has been segmented both in terms of customer segmentation, as well as product segmentation.

The new measurement methodology resulted in two key customer service indices. The first is a customer assurance index, comprising percentage repaired in time, fault rate and quality of repair. The second is a customer fulfilment index, comprising percentage installed in time, time to first failure and quality of installation. The following table sets forth information regarding measurements during the periods indicated.

	Year ended March 31,		
	2004	2005	2006
Residential voice			
% cleared in 24 hours	69%	46%	47%
Faults per 1,000 lines	410	441	470
% installed in 5 days	56%	51%	49%
Business voice			
% cleared in 24 hours	94%	62%	61%
Faults per 1,000 lines	295	287	300
% installed in 5 days	85%	68%	63%
Data subrate			
% cleared in 24 hours	99%	97%	92%
Faults per 1,000 lines	880	756	801
% installed in 10 days	65%	75%	40%
ADSL business			
% cleared in 24 hours	80%	79%	54%
Faults per 1,000 lines	624	505	480
% installed in 20 days	86%	84%	56%

The decline in residential and business voice performance in the 2006 and 2005 financial years was due to bad weather conditions and a high incidence of electrical storm activity resulting in increased fault rates, which impacted on Telkom's service levels. We have implemented a sustainment program focused on access network reliability to reduce the impact of electrical storm activity. During the 2006 financial year, there was a 146% increase in ADSL installations, which resulted in a decline in the ADSL installation rate and the percentage cleared within 24 hours as a result of the doubling of the installed base. The decline in the installation rate for data subrate was primarily due to delays as a result of network capacity problems. We have upgraded our fixed-line core network to increase bandwidth capacity.

Infrastructure and technology

The following table sets forth information related to the digitalization and upgrade of our network at the dates indicated.

	As of March 31,				
	2002	2003	2004	2005	2006
Digitalization (percentage of lines)	99.8	99.8	99.9	99.9	99.9
ATM switches	195	197	189	202	212
Digital exchange units	4,083	4,292	4,321	4,339	4,427

National network operations center

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

Switching network

An important part of our fixed-line network modernization program has been switch digitalization. As of March 31, 2006, 99.9% of our telephone access lines were connected to digital exchanges. Switch digitalization has made our network more efficient and resilient and has enabled us to offer new value-added voice and data services, including caller line identification, electronic call answering and the provisioning of innovative billing systems. Our switching network infrastructure is based on a two-tier structure utilizing large capacity digital switches. The upper, or primary, tier is used for the switching of long distance and international traffic and the lower, or secondary, tier is used for the switching of regional and local traffic.

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

Softswitch capability is being deployed initially as an overlay network to enable the communication of voice over internet protocol services.

Transmission network

Our national transmission network comprises a synchronous digital hierarchical and wave division-multiplexing network. Both the primary and the secondary tier are based on a combination of ring and meshed topology, which provides a dual path to each connection point. The ring topology consists of interlocking self-healing rings, while the meshed topology consists of high capacity digital cross-connects connected in meshed fashion via high capacity digital links. The primary tier consists of eight stacked rings and fifteen digital cross-connects, while the secondary tier consists of 534 rings

and 85 digital cross-connects. The synchronous digital hierarchy network, with its network management capability, provides for faster provision and modification of service, improved grade of service and lower maintenance costs. Telkom is investing in additional capacity to meet requirements for growth in data traffic and leased lines.

At the beginning of the 2006 financial year, we commenced an aggressive roll-out of next generation synchronous digital hierarchical equipment on both the primary and the secondary tier. We are currently upgrading our wave division-multiplexing network to cater for larger capacities.

Access network

Access for our PSTN and data communications network is primarily via copper. Overlay point to multi-point radio systems have been deployed in some metropolitan areas and are also used to replace obsolete equipment in rural areas. Fiber in the loop has been and is deployed with appropriate technologies to residential areas, office parks and shopping complexes. Optical fiber distributed multiplexors and optical routers are also provided to mobile operators, corporate and large customer sites. Telkom is still deploying additional access network infrastructure to enable the provisioning of ISDN and xDSL services on demand. In addition, Telkom is focusing on the rehabilitation of its existing access network infrastructure to improve the reliability and quality of its network and to make it broadband friendly. Viable areas, which are out of reach of the broadband footprint, will be serviced by fiber and appropriate wireless technologies.

Asynchronous transfer mode network

We have rolled out an asynchronous transfer mode network to deliver broadband services to global and corporate customers. As of March 31, 2006, we had 212 switches in our asynchronous transfer mode network. The present available bandwidth between the core switches on our asynchronous transfer mode network is 129 STM-1s or 19.2 Gbps, while the available bandwidth between the access switches, metropolitan switches and core switches is 394 STM-1s or 58.6 Gbps. Access to our asynchronous transfer mode network is primarily provided via fiber.

Public broadband internet protocol network

Our public broadband internet protocol network comprises a three tier hierarchical network consisting of eight core sites, 25 edge sites and 67 access locations, including over 28,600 modems with an estimated dial-up base of greater than 500,000 customers, including Telkom and other internet service providers as of March 31, 2006.

Telkom has designed its internet protocol network as the core for new products and services with multi protocol label switching deployed in the network. 3,276 layer three virtual private network endpoints have been deployed.

We introduced ADSL as a new access technology in August 2002 for our internet protocol network. The ADSL roll out has been designed to provide maximum coverage in terms of prospective ADSL customers. Our ADSL footprint covers approximately 82.1% of our customer base and consists of 1,075 digital subscriber line access multiplexers, serving approximately 143,509 customers as of March 31, 2006, an increase from 58,278 customers as of March 31, 2005 and 20,145 customers as of March 31, 2004. This network is managed from our national network operations center.

Voice over internet protocol network

Our voice over internet protocol network terminates calls for numerous international voice carriers into our fixed-line network. Call centers from around the world that have relocated to South Africa due to favorable economic conditions and lower resource costs are also hosted on our voice over internet protocol network. Telkom has points of presence for connectivity to the voice over internet protocol network in Amsterdam, London, New York, Ashburn (Washington D.C.), Zambia, Zanzibar and

Tanzania, with plans to expand to the Far East. The network can terminate 68 media gateways, or approximately 32,640 voice circuits. The media gateways compress the traditional voice channels of 64 Kbps to 9.6 Kbps channels thus enabling us to reduce the cost of international calls, while maintaining the perceived voice quality of a 64 Kbps call.

WiFi

In February 2005, Telkom launched a hot spot service that provides wireless data access service by using 802.11b/g WiFi technology. Any user with a wireless enabled notebook computer or personal digital assistant can connect to the service while in the coverage area. WiFi is mainly targeted at hotel groups, major shopping malls and some sites on national routes.

WiMAX

Telkom has concluded proof of concept testing of fixed WiMAX technology. This technology is standards based broadband wireless access technology that provides high throughput connectivity over long distances. It can be used for a number of applications, including access broadband connections for hotspots and high-speed enterprise connectivity for businesses. The technology is designed to reduce investment risks for operators and service providers by enabling Telkom to more cost effectively take advantage of the market potential of wireless broadband access.

Services that have been successfully tested to date include internet access, high-speed broadband data and voice over internet protocol via customer premises gateways. Service testing has been confined to Telkom employees. Telkom has a memorandum of understanding in place with Intel Corporation for the interchange of information on WiMAX in order to keep up with the latest WiMAX developments. Telkom is a member of the WiMAX Forum and actively monitors the Forum for any developments. Telkom will seek to deploy the fixed version of WiMax in the short to medium term and the mobile version in the medium to long term subject to the availability of the technology.

Fixed Mobile Convergence Alliance, or FMCA

Telkom is a member of the Fixed Mobile Convergence Alliance, or FMCA, where we share information on research and development related projects and new fixed-mobile convergence product launches.

The FMCA is a global alliance of 24 telecommunications operators whose objective is to accelerate the development of fixed-mobile convergence products and services. The members are leading fixed, mobile and integrated (fixed and mobile) network operators from around the world whose customers stand to benefit from the development of convergence products and services. The total FMCA subscriber base is in excess of 800 million, or one in every three of the world's telecoms users. As the fastest growing operator-only alliance in the world, the FMCA provides a solid foundation for shaping the convergence market, reducing the barriers to entry for new convergence products and services to enter the market.

International connectivity

We offer international connectivity from two international switching centers to terrestrial, satellite and submarine cable routes. Further international connectivity has been provided with the deployment of very small aperture terminals and other satellite transmitters located at strategic locations throughout the country. Telkom has satellite bandwidth available from Intelsat in the Atlantic and Indian Ocean regions. Telkom also has access to satellite capacity from 64 Kbps to 45 Mbps upon request. The Indian Ocean region can be connected to two satellites and the Atlantic Ocean region can be connected to three satellites. Satellite access is provided from our earth stations at Hartebeeshoek, west of Pretoria, Crowthorn in Gauteng and Klipheuwel in Cape Town. Currently we have satellite voice and data connectivity to locations not reachable via undersea cable, including most African countries, the Americas, Australia and Europe.

We have investments in three cable systems connecting Africa and international destinations.

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

Information technology/operations support systems

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

We have a data center in Centurion, Pretoria in order to improve internal information technology service levels and offer external internet and related services such as managed data center hosting services. The center is safeguarded by state of the art environmental and security systems capable of performing maintenance without impacting service or availability. The complex houses a 2,100 square meter data center and over 9,000 square meters of usable office space and includes a twenty four hour command/operations center. The command center contains a large video wall that enables personnel to keep abreast of the current state of our information technology infrastructure twenty four hours a day.

Our data center has been leveraged to include both our internal support systems and our external hosted offerings. We have a business continuity and disaster recovery plan utilizing both our Centurion and its sister data center site in Bellville locations for redundancy purposes. Both operations can be monitored and operated from either location via service management tools and data for critical systems is transferred between these sites for rapid disaster recovery should it be necessary. Our power support systems have also been upgraded to add an additional level of environmental redundancy. This redundancy is shared between the data center and the new national business solutions center building to reduce cost.

In June 2003, Telkom officially inaugurated a center known as the national business solution center. This center was built alongside the national network operations center and the data center providing Telkom with a centralized information technology backbone. The national business solutions center was commissioned and we are currently hosting 23 out of our 26 hosting customers in the national business solutions center. Both the data center and the national business solution center are operated from a command center and now provides an additional 3,000 square meters of computer room space designed to the same specifications as our primary data center requirements. In addition, this new facility gives Telkom the ability to provide high availability configurations that are split between both buildings for redundancy purposes. Network reliability has also been enhanced by creating a totally redundant, shared network environment between the data center, the national business solution center building and the national network operations center.

Telkom is currently in the process of implementing a number of management information and other operating support systems in order to better respond to the increased liberalization of the South African telecommunications industry. These systems are being designed to integrate with Telkom's billing and other management information systems, to provide Telkom with the capability of providing comprehensive and detailed operating information, a single bill for customers with multiple locations and products and configuring products and services across voice and data domains. The nature and the current status of these systems are as follows:

- Workforce management system – an automated mechanism to manage and optimize Telkom's workforce. The first phase of the workforce management system was completed in the 2006 financial year. The roll-out of the second and third phases of the workforce management system is planned for the 2007 financial year.
- Customer management system solution – a system to unify both voice and data customers, to manage and maintain all customer information and interactions and to produce a single bill for customers' voice and data services or products. The roll-out of the customer management system for selected segments that will enable Telkom to have a single view of its customer is planned to commence towards the end of the 2007 financial year.
- Product catalogue (in conjunction with the customer management system solution) – a system to configure and maintain products and services for both voice and data domains, to bundle products and groups of products across voice and data product and service domains, and to provide contract management functionalities for both voice and data services or products and customers. The implementation for non-voice related products and services is planned for the 2007 financial year and for voice related products and services is targeted for completion in the 2008 financial year.
- Order management system (in conjunction with the customer management system solution) – a system to provide end-to-end management of customer orders. The order management system for non-voice related products and services is planned to be completed in the 2007 financial year and for voice related products and services is planned for completion in the 2008 financial year.
- Fault management solution – a system to accelerate the real-time and accurate detection of problems in Telkom's network by event collection, filtering and correlation. The first phase was successfully implemented in the national network operations center in the 2005 financial year and the next phase is planned to be completed in the 2007 financial year.
- Enterprise asset management platform – a system for holistic asset lifecycle management in the company. The final phase was successfully implemented in the 2006 financial year.
- Next generation operation support system – Telkom's current operating support system needs to be evolved and developed to a new next generation operating support system to integrate and support Telkom's conversion to a next generation network. The first phase will be a comprehensive scoping exercise that is planned to be launched in the 2007 financial year.

Competition

We currently compete for telephone customers with the three existing mobile operators, Vodacom, our 50% owned joint venture, MTN and Cell C. MTN is a public company listed on the JSE Limited and Cell C recently announced that it would be entering into a joint venture with Virgin Mobile, which we expect will increase competition. We also compete with service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our fixed-line network by being transferred directly to mobile networks. In recent periods, our fixed-line business has experienced significant customer migration from our fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service. The entry of multinational corporations to South Africa is expected to be a further incentive for global communications operators, which already service these corporations abroad, to establish or enhance their presence in South Africa.

In addition, our data services have faced increased competition from Sentech, which owns and operates satellite transmission systems and in August 2003 launched a packaged, always-on, bi-directional broadband service via satellite that allows users anywhere in South Africa to get connected, regardless of whether landlines are available. In January 2004, Sentech also launched a competing wireless high-speed internet access service offering. Similarly, Vodacom's and MTN's 3G networks now also enables customers to browse the internet on a high speed platform, which provides increased competition for our data services.

We also face increased competition from mobile operators, value added network operators and private network operators as a result of determinations by the South African Minister of Communications in September 2004 and we expect that the new licensing framework to be implemented in connection with the Electronic Communications Act will result in the market becoming more horizontally integrated with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business. We expect that the introduction of number portability and carrier pre-selection could further enhance competition and increase our churn rates.

In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, SNO-T, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. ICASA issued this license on December 9, 2005, however, SNO-T is not expected to commence business activities until the second half of the 2006 calendar year. A process has also commenced to issue additional licenses to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5%. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licenses to successful bidders in seven of them and has issued invitations to apply for licenses in the remaining 20. It is expected that further licenses will be issued in the 2006 calendar year.

In September 2004, the Minister of Communications issued determinations, pursuant to which, since February 1, 2005:

- mobile cellular operators have been permitted to obtain fixed telecommunications links from parties other than Telkom;
- VANS operators and private network operators have been permitted to resell the telecommunications facilities that they obtain from Telkom;
- VANS operators have been permitted to allow their services for the carrying of voice, including voice over internet protocol;
- Telkom is no longer the sole provider of facilities to VANS operators; and
- licensing for the provision of payphone services has been expanded.

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the Telecommunications Act, however, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully

implement the provisions of the Electronic Communications Act. The bill, renamed the Electronic Communications Bill, was passed by the Parliament of South Africa in December 2005 and was signed by the President of South Africa on April 18, 2006. The Electronic Communications Act came into effect on July 19, 2006. The Electronic Communications Act aims to supplement or replace current sector specific legislation and change the market structure from a vertically integrated, infrastructure based, market structure to a horizontal, service based, technology neutral, market structure with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum. We expect that the new licensing framework will result in the market becoming more horizontally integrated and will substantially increase competition in our fixed-line business.

See "–Regulation and License Requirements."

As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty through improved services and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline.

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

Procurement

We utilize a transparent multi disciplined approach to purchasing and supplier management in order to ensure that we receive the best products and services from reliable suppliers at the best overall price. We have established cross functional sourcing teams staffed with individuals from different areas of our organization to evaluate and make recommendations on certain bids, which, depending on value, require the further approval of our executive committee and board of directors and notification of certain approvals to our board of directors. Bid requests are published in our weekly tender bulletin and on our web site. We have adopted affirmative procurement policies that favor historically disadvantaged suppliers. We seek to utilize at least two suppliers for all critical equipment where possible in order to minimize supply risk. In the year ended March 31, 2006, our top twenty suppliers accounted for approximately 70% of all purchases and our main supplier was Total Facilities Management Company (Pty) Limited, or TFMC, which accounted for approximately 18% of all expenditure. During the year ended March 31, 2006, Telkom directed R6.4 billion to black economic empowerment suppliers, representing approximately 67% of Telkom's total procurement spending, compared to R5.2 billion and R4.6 billion in the years ended March 31, 2005 and 2004 respectively.

Mobile Communications

Overview

We participate in the South African mobile communications market through our 50% interest in Vodacom. Vodacom is the largest mobile communications network operator in South Africa with an estimated market share of approximately 58% as of March 31, 2006 based on total estimated customers. Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. Vodacom's other shareholder is Vodafone, which beneficially owns 50% of Vodacom.

South Africa

Vodacom had approximately 19.2 million customers in South Africa as of March 31, 2006. As of March 31, 2006, Vodacom's 6,401 base stations were capable of reaching approximately 97.5% of the country's population based on the last official census conducted in 2001 and approximately 69.4% of the total land surface of the country. The estimated penetration rate for mobile communications in South Africa has increased to approximately 70% as of March 31, 2006.

Vodacom offers public mobile communications services which are based on second generation Global System for Mobile Communications, or GSM, and third generation Universal Mobile Telecommunication System, or UMTS, mobile communication standards. Vodacom was granted a mobile cellular telecommunications license in South Africa in September 1993 and commenced service in June 1994. This mobile cellular telecommunications service license was confirmed and reissued in August 2002 pursuant to the Telecommunications Act, and was renewed until May 30, 2024 on the same terms and conditions as the existing license. In addition, Vodacom was awarded a permanent 1800 MHz license and a 3G spectrum license during the 2005 financial year.

Products and services

Vodacom offers a wide range of mobile voice and data communications products and services, including value-added services. Vodacom's services also include the sale of handsets. Vodacom has a history of innovation as illustrated by its record of product offerings. Vodacom was the first mobile communications network operator in the world to offer prepaid mobile communications services on an intelligent network platform and to offer its customers coverage across the whole of Africa where commercial GSM roaming is available. Vodacom was also the first mobile communications network operator in South Africa with nationwide coverage. Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom also entered into an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services.

Vodacom recently introduced 3G with high-speed downlink access, or HSDPA, giving its customers access to global high speed broadband communications. Vodacom's 3G HSDPA became commercially available on April 2, 2006. In addition, in December 2005, Vodacom became the first South African cellular network to bring its customers Mobile TV that allows customers to watch a wide variety of popular channels on their 3G Vodafone live! cellphone.

Vodacom will seek to continue to grow data revenues by launching useful office tools and software applications such as 3G, HSDPA, Mobile TV, Vodafone Mobile Connect Cards and BlackBerry®, at competitive prices. BlackBerry®Connect, as well as BlackBerry®Built-In, which enable customers to access BlackBerry services without a traditional BlackBerry® device, are also expected to be available on certain Motorola, Siemens and Sony Ericsson handsets in the 2007 financial year. In the future, Vodacom intends to continue to focus on offering premier interactive voice response, premium short messaging services, general packet radio services, multimedia services, HSDPA services, internet services, e-mail services and fixed-to-mobile products.

Contract subscription services

As of March 31, 2006, approximately 12.3% of Vodacom's South African customers were contract customers. Contract subscription is typically for an initial 24-month contract. Vodacom offers residential and business contract customers a range of mobile service packages designed to appeal to specific customer segments. Vodacom offers two broad categories of contract subscription packages, leisure packages, such as Weekend Everyday, and business packages, such as Business Call. Vodacom launched the Family Top Up package in the 2004 financial year, a hybrid contract product which combines the benefits of a contract service with the financial control offered by a prepaid service and is designed to facilitate migrations to contract packages from existing prepaid packages. Vodacom's

Family Top Up package has proven highly successful and has contributed to the growth in contract customers. As of March 31, 2006, 27.6% of Vodacom's contract customers were Top Up customers compared to 19.8% as of March 31, 2005 and 5.1% as of March 31, 2004.

The monthly subscription and call charges vary with each of the packages. All contract packages make available voice, fax and data services, voice-mail, caller identification, call forwarding, call waiting and short message service capabilities. Depending on the contract package, customers either pay a fixed monthly charge and receive a set number of free minutes or pay a monthly subscription for access plus a per minute or per second fee. In addition, Vodamail Executive is available to all contract packages on request. This is an integrated voice and fax mailbox that offers features such as Faxmail, group distribution list and voice-mail messaging.

Prepaid services

As of March 31, 2006, approximately 87.5% of Vodacom's South African customers were prepaid customers. Vodacom has two prepaid products, Vodago and 4U. Vodago was Vodacom's initial prepaid product and offers two tariff plans, Vodago Standard and Vodago Smartstep. Vodacom's 4U is a prepaid per second billing product targeted at the youth market who have higher usage of SMS and a need for per second billing. Since its inception, the number of 4U customers has increased significantly and as of March 31, 2006, approximately 77.0% of Vodacom's prepaid customers were 4U customers. Vodago and 4U provide instant access to the Vodacom network and enable low volume customers to control mobile telephone costs based on usage because there are no long term contracts. Fax and certain data services became available to Vodago customers in the 2006 financial year.

Vodacom offers eight prepaid vouchers, seven of these ranging from R12 worth of airtime value and a 90 day usage time window to R1,100 worth of airtime value and a 365 day usage time window. An eighth voucher option is available for R365 that allows the customer R265 worth of airtime value and a 2 year airtime window regardless of activity. In November 2005, Vodacom introduced the 46664 starter pack, a Super six starter pack in which Vodacom donates a portion of the proceeds to the Nelson Mandela 46664 Foundation to help fight against HIV/AIDS. During the 2005 financial year, Vodacom introduced a new Super six 4U starter pack which changed the Vodago Super six starter pack to include free SMSs.

Recharge-related innovations in the 2005 financial year included the Yebo 5 voucher, adding SMS as a recharge channel, and the addition of electronic recharge as a service to the Vodacom4me portal. Remaining airtime value and time window are accumulated provided the customer recharges before the time window expires. The accumulated time window cannot exceed 24 months. Vodacom also offers a voucher that entitles customers to receive unlimited incoming calls for 365 days. This voucher does not entitle the customer to make outgoing calls, but can be combined with other vouchers that entitle the customer to make outgoing calls as well as accumulate time window.

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

Community services

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

The demand for community service phones has been strong since its introduction. Vodacom had deployed approximately 30,287 community service phones as of March 31, 2006, exceeding its aggregate license target of 22,000 community service phones. The development of community service phones has made it possible to provide mobile access to the more than 20 million South Africans who live in communities where there is less than one telephone line per hundred people and have improved the quality of life for many South Africans who previously had no access to telecommunications. Community service phones have also been a cost effective method of significantly increasing traffic revenue on Vodacom's network due to their low roll-out costs to Vodacom and low barriers to entry for customers. Community service phones generated ARPUs of more than 12 times Vodacom's average total South African ARPUs in the year ended March 31, 2006. Vodacom intends to appropriately adopt its business model for community service phones in its other African operations.

Value-added mobile voice and data services

Vodacom offers an extensive portfolio of value-added mobile voice and data services, including caller identification, call forwarding, call waiting, voice-mail, entertainment, mobile information and commerce services, short messaging services, mobile multimedia services, data services, mobile internet access, fax services and twin call services, the latter of which enable customers to use two mobile phones under the same number. Vodacom's Call Sponsor offering enables contract customers to sponsor the calls of up to three prepaid customers. Vodacom has experienced substantial growth in the use of its value-added voice and data services, resulting in increased traffic revenue on its network. Short messaging services and, to a lesser extent, new data initiatives such as Vodafone Mobile Connect Cards, Vodafone live!, Mobile TV and BlackBerry®, were the key contributors to Vodacom's R1.9 billion, R1.2 billion and R943 million of data revenue in South Africa in the years ended March 31, 2006, 2005 and 2004, respectively. Vodacom transmitted approximately 3.5 billion short messaging services over its network in the year ended March 31, 2006, up from approximately 2.4 billion and 2.0 billion in the years ended March 31, 2005 and 2004, respectively.

Vodacom launched the first commercial 3G network in South Africa in December 2004. In the 2005 financial year, Vodacom also entered into an alliance with Vodafone, pursuant to which Vodacom is able to market Vodafone branded products and services. In connection with the launch of its 3G network, Vodafone launched Vodafone Mobile Connect Cards, 3G/GPRS/HSDPA datacards providing fast, secure access to corporate networks from laptop or desktop computers, Vodafone live! with global and local content, picture and video messaging and downloads, Mobile TV and BlackBerry®. Vodacom's alliance with Vodafone also provides Vodacom access to Vodafone's global research and development and access to Vodafone's marketing and buying powers. As of March 31, 2006, Vodacom had 179,576 3G handsets active on its network and had sold 37,798 Vodafone Mobile Connect Cards. In the 2004 financial year, Vodacom launched SMS-only roaming and promotional offerings such as free MMSs and free SMSs. Vodacom launched MyLife, its MMS and GPRS network service, on October 17, 2002, Office Anywhere in August 2003, location based services Look4me in February 2004 and Look4it in March 2004. Vodacom was also the first to launch BlackBerry® devices into the South African market, shifting the focus to data and e-mail on demand. As at March 31, 2006 Vodacom had 12,028 BlackBerry® users registered on its network.

There was an increase in the usage of GPRS during the 2006 financial year, with the number of GPRS users increasing to approximately 1.4 million at March 31, 2006 from approximately 0.6 million at March 31, 2005 and approximately 0.1 million at March 31, 2004. A major contributor to the volume of GPRS and 3G data traffic is Vodafone live!, which was launched on March 22, 2005 and by March 31, 2006 there were 351,427 users. On December 1, 2005 Vodafone Release 7 was launched with welcome tones and Mobile TV as major new services. By March 31, 2006 there were 16 TV channels available on Vodafone live! with 12,903 users.

New and innovative value added services include e Billing. Further additions and enhancements include video telephony charged at the same rate as voice calls, video mail and the missed call keeper service.

Vodacom continued to deliver on its data strategy which utilizes wireless application service providers, or WASPs, to provide ease of connectivity and standardized interfaces. Currently, the WASP model is driven largely by consumer applications, with the majority of interest being in premium-rated outgoing SMS and bulk incoming SMS services. As of March 31, 2006, 152 WASPs had applied for connectivity to the Vodacom network.

Premium rated SMS content is still focused on competitions, information and alert services. Average monthly volumes have grown to 13 million premium rated SMSs in the 2006 financial year.

Data revenue contributed 6.0% of Vodacom's total revenue in the year ended March 31, 2006, up from 4.9% in the year ended March 31, 2005 and 4.5% in the year ended March 31, 2004. Vodacom expects that the broad introduction of "always on" faster response and generally higher speed packet-switched data services, such as GPRS and universal mobile telecommunications system, or UMTS, will provide the platform for future value-added services.

Handset sales

Vodacom Service Provider Company (Pty) Limited, or Vodacom Service Provider, sells handsets to its distribution channel and other service providers. Service providers in South Africa generally subsidize handsets when a contract customer enters into a new contract or renews an existing contract, depending on the airtime and tariff plan and type of handset purchased. Handset sales for the 2006 financial year amounted to approximately 3.8 million units, a year-on-year growth of approximately 58.3% and 14% for the 2006 and 2005 financial years, respectively. Vodacom's state of the art warehouse in Midrand handled an average of 2,130 orders per day, up by 29.7% from the prior year figure of 1,642 orders per day. Approximately 98.1% of all deliveries to distribution channels are finalized within 48 hours of receipt of the order. Camera technology in phones has improved with 1.3 mega pixel cameras being the standard, 2 mega pixel cameras now available on high end phones and up to 5 mega pixels expected to be available in the 2007 financial year. HSDPA handsets are also expected to become available in the market in the 2007 financial year. In addition, bluetooth technology is available on most mid- and high-end phones. The Vodafone live! handset portfolio has increased significantly during the course of the year and accounted for approximately 17% of Vodacom's total sales in the 2006 financial year. 3G handset prices also declined significantly in the last few months making 3G handsets now more affordable. Bundling offers of the Vodafone Mobile Connect Card with laptops and desktops are expected to be increased in the coming year with the introduction of embedded 3G modules in laptops and desktops.

Mobile users may use any handset on the Vodacom or any other network if the handset contains a SIM-card for Vodacom or the other network. No modifications, other than the replacement of the SIM-card, are required to utilize handsets on either the Vodacom or other mobile communications network operators' networks, unless the handset is network locked.

Interconnection services

Vodacom has interconnection agreements with national mobile operators, MTN and Cell C, as well as with Telkom and carrier-of-carriers licensee, Sentech. In addition, Vodacom has an interconnection agreement in place with six out of the seven USALs, VANS operator Gateway Communications and is in the process of negotiating agreements with another nine VANS operators as well as with SNO-T.

Roaming services

Vodacom concluded a fifteen year national roaming agreement with Cell C, until March 31, 2019. This roaming agreement enables Cell C to provide national coverage to its customers, by allowing the routing of calls over Vodacom's mobile communications network. Vodacom has also entered into roaming agreements with six out of the seven USALs. Similar to CellC, the USALs are allowed to make use of Vodacom's network to originate and terminate calls. In addition, Vodacom provides the USALs with certain ancillary services such as SIM card provisioning, recharge facilities and customer care.

International roaming enables Vodacom's contract customers to make and receive calls with their mobile telephones in countries using the networks of operators with whom Vodacom has entered into international roaming agreements. As of March 31, 2006, Vodacom had international roaming agreements with 350 mobile communications network operators in 169 countries. Vodacom also receives revenue from its roaming partners for calls made in South Africa by their customers.

Customers

Vodacom has experienced substantial growth in its mobile customer base since its inception in 1994. As of March 31, 2006, there were an estimated 33.0 million mobile customers in South Africa, which represents an estimated penetration rate of 70.6% of the population. As of March 31, 2006, Vodacom estimated that its customers represented approximately 58% of South African mobile customers, making Vodacom the leading mobile communications network provider in South Africa based on total estimated customers.

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

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Customers (thousands) (at period end) [1]	**9,725**	**12,838**	**19,162**	**32.0**	**49.3**
Contract	1,420	1,872	2,362	31.8	26.2
Prepaid	8,282	10,941	16,770	32.1	53.3
Community services	23	25	30	8.7	20.0
Total inactive mobile customers (%) (at period end) [2]	**n/a**	**7.9**	**8.7**	**n/a**	**10.1**
Contract	**n/a**	**1.5**	**2.4**	**n/a**	**60.0**
Prepaid	**n/a**	**9.0**	**9.6**	**n/a**	**6.7**
Gross connections (thousands)	**4,998**	**6,180**	**9,140**	**23.6**	**47.9**
Contract	377	610	702	61.8	15.1
Prepaid	4,617	5,566	8,422	20.6	51.3
Community services	4	4	16	–	300.0
Churn (%) [3]	**36.6**	**27.1**	**17.7**	**(26.0)**	**(34.7)**
Contract	10.1	9.1	10.0	(9.9)	9.9
Prepaid	41.3	30.3	18.8	(26.6)	(38.0)

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

(2) Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. In the 2005 financial year, a software error was identified in the calculation of inactive customers. Vodacom has corrected inactive customers as of March 31, 2005. Information for prior years is unavailable.

(3) Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period. See below for a discussion of when customers are disconnected from Vodacom's network.

Vodacom's contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment. Prepaid customers in South Africa were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period, expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers in South Africa to align itself with European and industry standards. From December 2003, prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days. See "Item 4."Information on the Company– History and development of the Company–Recent Developments–Vodacom's change in South African definition of active customers".

Vodacom believes the significant year on year growth in customer numbers since inception is due primarily to historical pent up demand for basic voice telephone services, particularly in underserviced and rural, outlying areas of South Africa. Vodacom also attributes its growth to the launch of its prepaid services, which have enabled those that lack access to credit and steady income to obtain telephone service. Vodacom believes that its aggressive marketing campaign, the creation of strong distribution channels for Vodacom's products and services and the introduction of new value-added voice and data services have further contributed to growth.

The South African customer base has continued to grow in the 2006 and 2005 financial years with the majority of the growth resulting from the prepaid market. The strong growth in customers was a direct result of the large number of gross connections achieved. Prepaid gross connections increased 51.3% to approximately 8.4 million in the 2006 financial year compared to approximately 5.6 million in the 2005 financial year. Contract gross connections increased 15.1% to approximately 702,000 in the 2006 financial year compared to approximately 610,000 in the 2005 financial year. Growth in contract customers was largely due to the increase in connections in Vodacom's hybrid contract product, Family Top Up. As of March 31, 2006, 27.6% of Vodacom's contract customers were Top Up customers, compared to 19.8% as of March 31, 2005.

Vodacom expects that the number of contract customers in South Africa will eventually level off and that the number of prepaid customers in South Africa will continue to grow in the medium term driven by the continued demand for basic voice telephone services. Vodacom's growth in prepaid customers could be negatively impacted by restrictions contained in RICA, which may require a burdensome registration process for customers and may require Vodacom to disconnect prepaid customers if it is not able to obtain such information. See "Risk Factors." Vodacom believes that mobile communications services provide a cost effective means of telephone services for customers in underserviced and rural, outlying areas. Vodacom's efforts will therefore continue to focus on growing customer numbers while carefully managing its existing customer base, marginal revenue per customer and customer related acquisition and retention costs. Vodacom, MTN and Cell C each provide connection commissions to service providers and dealers, or agents. These are often utilized by agents to subsidize handsets as an incentive for customers to switch operators to obtain a new handset and to reduce the cost of access. As a result, Vodacom focuses on keeping its contract churn rate low and retaining high value customers through focused handset upgrade policies and other retention measures, while continuously monitoring customer acquisition and retention costs. Vodacom also actively manages churn through customer relationship management systems, developing its own distribution and logistics capabilities and other retention initiatives. Prepaid customer churn is negatively affected by the high rate of unemployment in South Africa and the low cost of access.

Traffic

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

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Total Traffic (millions of minutes)	**12,172**	**14,218**	**17,066**	**16.8**	**20.0**
Outgoing [(1)]	7,647	9,231	11,354	20.7	23.0
Incoming (interconnection)	4,525	4,987	5,712	10.2	14.5

(1) Vodacom has changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 and 2004 financial years.

Growth in traffic in the 2006 financial year was mainly due to the 49.3% growth in the total customer base in South Africa from 12.8 million customers as of March 31, 2005 to 19.2 million customers as of March 31, 2006. Also evident was a marked change in customer calling patterns, with total mobile to mobile traffic increasing by 26.1% while total mobile to fixed and fixed to mobile traffic increasing by 1.7%. Growth in traffic in the 2005 financial year was mainly due to a 32.0% growth in the customer base from 9.7 million customers as of March 31, 2004 to 12.8 million customers as of March 31, 2005.

Tariffs

Vodacom's tariffs are subject to regulatory scrutiny, and, in certain circumstances, approval of ICASA. The contract tariff packages are designed to appeal to leisure and business customers. Vodacom sets its contract subscription package tariffs utilizing a balanced mix of access and usage. For those tariff packages where voice usage is high, the per minute rate is lowered and the monthly subscription tariff is raised. For those packages where the voice usage is low, the per minute tariff rate is increased and the monthly subscription tariff is lowered. For those users where the monthly subscription tariff is a barrier to entry, Vodacom offers prepaid packages with no monthly subscription tariff, but sets the per minute voice tariff rate higher. Vodacom and MTN are parties to an amended interconnection agreement with each other and new interconnection agreements with Cell C. Effective January 2005, the mobile-to-mobile interconnection rates for both commercial and community service telephone originated calls were increased from R1.23 peak and R0.73 off peak to R1.25 peak and R0.77 off peak for commercial calls and from R0.04 peak and R0.04 off peak to R0.06 peak and R0.06 off peak for community service calls, in each case exclusive of VAT.

The following table sets forth selected tariff information as of March 31, 2006 for a family top up package, a leisure contract package, a business contract package and a prepaid package. Peak hours are weekdays between 7:00 a.m. and 8:00 p.m., whereas Happy Hours, which were introduced in the 2006 financial year, are weekdays between 5:00 p.m. and 8:00 p.m. Off peak hours are all other times and all day during public holidays and weekends. Tariffs for international calls vary according to the destination country of the call. Vodacom's most recent annual tariff amendments were lodged on August 26, 2005 and approved by ICASA on September 6, 2005. The amendments resulted in an average tariff decrease of 4.9%, effective October 1, 2005.

	As of March 31, 2006			
	Family Top Up [(1)]	Leisure Contract [(2)]	Business Contract [(3)]	Prepaid [(4)]
	(ZAR, including value-added tax)			
Connection fee	97.00	97.00	97.00	–
Monthly charge/subscription	135.00	135.00	185.00	–
National calls	(ZAR/minute, including value-added tax)			
Mobile-to-fixed peak calls	2.70	2.75	1.76	2.99
Mobile-to-fixed off peak calls	0.90	0.95	0.95	1.08
Mobile-to-mobile peak calls-own network	1.80	1.80	1.76	2.99
Mobile-to-mobile "Happy Hours" – own network	1.49	1.49	1.49	1.49
Mobile-to-mobile off peak calls-own network	0.90	0.90	0.95	1.08
Mobile-to-mobile peak calls-other networks	2.75	2.75	2.30	2.99
Mobile-to-mobile off peak calls-other networks	1.05	0.95	1.15	1.30
International calls				
Peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone	1.76+ Telkom peak	1.76+ Telkom peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 42.00, depending on zone
Off peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone	0.95+ Telkom off peak	0.95+ Telkom off peak	7.20, 10.80, 14.40, 18.00, 21.60 or 25.20 depending on zone
	(ZAR, including value-added tax)			
SMS per message				
Peak	0.80	0.80	0.80	0.80
Off peak	0.35	0.35	0.35	0.35

(1) Tariff for "Family Top Up," Vodacom's hybrid contract package. Vodacom's "Family Top Up" contract includes R135 of credit airtime value per month. Calls are charged for the first 60 second increment and one-second increments thereafter. As of March 31, 2006, "Family Top Up" customers accounted for 27.6% of Vodacom's total contract customers.

(2) Tariff for "Weekend Everyday," Vodacom's contract leisure package. Vodacom's "Weekend Everyday" contract includes 120 free off peak minutes per month. Calls are charged for the first 60 second increment and 30 second increments thereafter. As of March 31, 2006, "Weekend Everyday" customers accounted for 23.1% of Vodacom's total contract customers.

(3) Tariff for "Business Call," Vodacom's contract business package. Vodacom's "Business Call" contract includes no free minutes per month. Calls are charged for the first 60 second increment and 30 second increments thereafter. As of March 31, 2006, "Business Call" customers accounted for 4.9% of Vodacom's total contract customers.

(4) Tariff for "4U." Calls are charged per second. As of March 31, 2006. "4U" customers accounted for 77.0% of Vodacom's total prepaid customers.

Sales and marketing

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

The sale and distribution of Vodacom's products and services and the acquisition and retention of customers are performed by Vodacom's wholly owned subsidiary, Vodacom Service Provider, a company incorporated in South Africa, and the other independent and exclusive service providers. In recent years, Vodacom has purchased a number of the previously independent service providers and consolidated its sales and distribution operations into Vodacom Service Provider Company. On March 1, 2004, Vodacom purchased 51% of Smartphone, acquiring an additional 2.5 million prepaid customers. On April 16, 2004, Smartphone purchased an 85.75% equity stake in Smartcom, acquiring an additional 40,000 contract customers. On February 1, 2005, Vodacom acquired the contract customer base, dealer agreements and five employees of Tiscali.

Vodacom acquired a 51% stake in Cointel for approximately R84.3 million on August 1, 2005. Cointel's core business is providing value added and m-commerce services to the telecommunications industry.

An offer to acquire the cellular business of Africell, an exclusive Vodacom dealer in South Africa, was accepted on April 6, 2006. The acquisition is subject to a number of conditions, including approval by the South African Competition Commission.

In addition, Vodacom Service Provider Company seeks to enter into exclusive relationships with leading national retailers, wholesalers, dealers and franchisees in order to acquire and retain contract and prepaid customers. Vodacom utilized two exclusive service providers and two independent non-exclusive service providers as of March 31, 2006. As of March 31, 2006, 97.4% of Vodacom's total customer base, 83.5% of its contract customer base and 99.3% of its prepaid customer base in South Africa was managed by exclusive service providers or controlled directly by Vodacom.

Vodacom currently targets four market segments, namely:

- Corporate market-services to corporations and enterprises;
- Developed market-services to customers in the higher income groups;
- Developing market-services to customers in underserviced areas and lower income groups, who increasingly participate in the economy; and
- Youth market-services specifically designed for the needs of the youth.

Since most customers in the developed market already have cell phones, Vodacom's objective in the short to medium term is to retain market share and attract new customers through attractive products. Loyalty and retention programs played an integral role in achieving this objective. Vodacom also sought to increase its contract customer base by migrating appropriate high-end prepaid customers to Vodacom's hybrid contract product, Top Up, in the 2006 and 2005 financial years.

As of March 31, 2006, Vodacom's distribution network consisted of:

- *Vodaworld* – A unique one stop mobile telecommunications mall, showcasing the latest technology in cellular hardware.
- *Dealers and franchises* – 610 company and independently owned mobile dealer and franchise outlets, which include Vodashops, Vodacares, Vodacom 4U stores, Vodacom Active stores and Telkom Direct shops.
- *National chains* – 9,870 retail outlets.
- *Vodacom Direct* – Vodacom's call center based selling division.
- *Corporate solutions* – An extensive direct sales division within Vodacom which concentrates on the sale of contracts, data products and value-added services to businesses.
- *Wholesale* – A significant channel representing underserviced areas and street vendors.

Dealer incentives

Vodacom pays amounts to its service providers and dealers for the ongoing administration of its customers on a monthly basis.

Vodacom also pays the following incentive commissions to its service providers and dealers:

Contract connection incentive commissions. These commissions are paid to service providers or dealers for the acquisition and activation of each new customer for all contract packages.

Contract retention incentive commissions. These commissions are paid to service providers or dealers for the retention of all contract packages, excluding Vodacom 4U. The purpose of these incentives is to retain customers.

Prepaid incentive commissions. These commissions are paid to service providers or dealers for the acquisition and activation of each new customer for all prepaid packages.

Distribution incentive commissions. These commissions are paid to service providers or dealers to maintain and increase their loyalty to, and exclusivity with, Vodacom. These incentives include exclusivity payments and advances to service providers in respect of purchases of assets for stores and providing distribution outlets with distribution subsidies to maintain the loyalty of distribution outlets through the stimulation of sales.

Handset incentive commissions. These incentives are offered by Vodacom to dealers who purchase phones from Vodacom to provide to customers, which are recorded as a net against revenue.

Customer care

Vodacom services customer needs through a variety of channels such as call centers, walk-in centers established in Cape Town, Durban, Midrand and Port Elizabeth, interactive voice response, through e-mail and Vodacom's web sites. Vodacom's key focus area for the 2006 financial year has been Vodacom's customer self service. Approximately 75% of customer queries in the 2006 financial year were handled by the interactive voice response system and more than 80% of customer queries were resolved on the first call. Consequently, Vodacom has significantly improved its customer information systems and become increasingly proactive in developing relationships with its customers, particularly in the high revenue segment of the market. Vodacom is currently planning to establish more walk-in centers in other parts of the country. A fifth walk-in center was opened in Bloemfontein on May 8, 2006.

During the 2006 financial year, customer care was split into two focus areas, namely systems support and operations and retentions, in order to provide greater focus and more effective span of control. An email contact center was also established and has experienced significant growth. Vodacom also outsourced its directory inquiries and basic prepaid calls, which has had a positive impact on overall service levels and freed in-house call centers to manage more complex queries, particularly resulting from the growth in data.

The growth of the customer base has necessitated recruitment of an additional 1,000 customer care staff with 75% to be placed in the frontline to improve call handling capacity. The additional staff were used to fill existing seating capacity in the Western Cape, Port Elizabeth and Midrand, however, the bulk were allocated to a new call center in the city center of Johannesburg.

Vodacom has developed a customer relationship management package that enables it to create a historical profile of customers so that customer information can be shared among the group and used in Vodacom's customer retention initiatives. Although customer focus has always been important to Vodacom, during the last three years customer relationship management has become a key strategic focus area and an important philosophy in Vodacom. The current year saw ongoing integration of

support systems and staff training as part of improving this continuously challenging area. Vodacom strives to improve relationships with customers by understanding their needs, their likes, dislikes, how they use its products and how they would like Vodacom to interact with them. Vodacom reassures its performance through independent customer satisfaction surveys designed by Vodafone and conducted on a quarterly basis. Vodacom launched its Vodacom Customer Reward Program to recognize and reward for influential and high spending contract individuals, which it believes, has contributed to a very low churn in this sector.

In addition, Vodacom has undertaken a number of other initiatives, including the development of distribution and logistics capabilities to better service customers, called Vodacare. As of March 31, 2006 the Vodacare infrastructure consisted of 28 branches and franchises in all the major centers providing walk-in customer support to Vodacom customers, and an advanced repair center hub for high-level repairs situated in Midrand. Vodacom believes that, with an average of approximately 60,000 repairs per month, this dedicated customer service support infrastructure differentiates Vodacom's service from that of its competitors. During the 2004 financial year, Vodacom launched a new 48 hour swap program to further increase service levels. The primary focus is to manage and facilitate the process of putting the customer back on the air with as little interruption as possible and is achieved by using a combination of repairs, swaps, refurbished handsets, loan handsets, and managed repairs through third parties.

Vodacom plans to continue to invest in sophisticated information systems to facilitate the interface between operational support systems, administrative systems, billing systems, distribution systems and customer service systems. Vodacom believes that the new information systems will allow for the development of enhanced service management processes.

Vodacom's contract customers receive itemized bills and are encouraged to pay by direct debit transfer. Vodacom has a flexible billing system for corporate customers allowing it to offer multiple tariff rates, more customized billing information and billing for all GPRS- and 3G-related services. Vodacom monitors its exposure to credit loss and customer fraud through a credit scoring system that evaluates potential contract customers. The evaluation process has led to decreases in contract customer churn rates and increases in the overall credit quality of its mobile contract customers. For its prepaid customers, Vodacom offers the option to recharge over the telephone and certain websites using credit cards in order to make the recharge process quicker and easier, as well as from internet sites from specific banks.

Infrastructure and technology

Vodacom operates one of the largest mobile communications networks on the African continent using and deploying digital GSM technology within the GSM900/1800MHz frequency band based on total estimated customers.

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

	As of March 31,		
	2004	**2005**	**2006**
Macro base transceiver stations	4,158	4,518	4,873
Micro base transceiver stations	1,555	1,508	1,528
Total	**5,713**	**6,026**	**6,401**

The Vodacom network's UMTS 3G infrastructure as of March 31, 2006 consisted of 14 radio network controllers, 1,504 UMTS base transceiver stations (Node B), 4,512 UMTS transceivers and HSDPA functionality across the 3G network.

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

As of March 31, 2006, Vodacom's transmission network is comprised of 18,596 E1 links and 228 broadband links leased from Telkom, which are managed by a comprehensive next generation synchronous digital hierarchy digital cross-connect and multi-services platform infrastructure. In addition, Vodacom operates an extensive data network for its internal and commercial data requirements, based on internet protocol. It is comprised of more than 50 nodes and is supported by the Ethernet over synchronous digital hierarchy.

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

Vodacom has designed its mobile communications network using scaleable technology in order to be able to increase capacity in an economic manner as demand dictates. The network is capable of providing a high level of service quality despite an extremely varied distribution of traffic, difficult terrain conditions and a complex regulatory environment. In the year ended March 31, 2006, Vodacom had a call retention rate of 99.6% and a call success rate of 99.3% in South Africa.

As of March 31, 2006, approximately 23.5% of Vodacom's base stations were 3G enabled and Vodacom had installed dual band (GSM900/GSM1800MHz) base transceiver stations in 1,599 locations, comprising 13,945 GSM1800MHz transceivers. In addition, all base transceiver stations in metropolitan areas have been upgraded with dual band antennas and feeder cables to accommodate GSM1800MHz equipment, while Vodacom continues to deploy GSM1800MHz radio equipment in all regions to provide additional customer capacity as necessitated by the increase in network traffic. In the design of its network, Vodacom has paid careful attention to the needs of customers and to the environment by making an extensive effort to implement sites in the most discrete manner possible. Furthermore, attention has been given to management of electromagnetic emissions to ensure compliance with recognized international environmental standards such as those developed by the International Commission on Non Ionizing Radiation Protection.

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

Vodacom believes its 3G license will continue to assist in stimulating further growth in products and services to satisfy customer demand. As a result, during the 2006 financial year Vodacom increased its capital spending in this area and expects to further increase its capital spending in this area in the 2007 financial year.

Competition

The current South African mobile telecommunications market consists of three mobile communications network operators, Vodacom, MTN, a wholly owned subsidiary of MTN Group Limited, a public company listed on the JSE, and Cell C, which recently announced that it would be entering into a joint venture with Virgin Mobile and we expect will increase competition. As of March 31, 2006, Vodacom was the market leader with an estimated 58% market share based on the total estimated customers in the South African mobile communications market, while MTN had an estimated 33% market share and Cell C had an estimated 9% market share. Vodacom competes primarily on the basis of product quality, availability and network coverage. Vodacom believes that increased competition could have an adverse impact on its tariffs and churn rate.

Operations in other African countries

Vodacom intends to increase revenue from its other African operations, initially by growing its existing operations primarily in sub-Saharan Africa, and, in the future, by selectively acquiring additional mobile licenses or operators primarily in other sub-Saharan African markets. Investments outside of South Africa are evaluated and monitored against key investment criteria, focusing primarily on countries with stable economic and political conditions or good prospects for growth, market leadership and profitability. Other key factors include Vodacom's ability to gain majority ownership, develop strong local partnership relationships and obtain non-recourse financing, where available. Where Vodacom is not able to obtain non-recourse financing, it seeks to fund operations from internally generated funds. Other African operators are branded under the "Vodacom" name.

Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique. The number of customers served by Vodacom's operations outside South Africa has grown significantly to approximately 4.4 million as of March 31, 2006 from approximately 2.6 million as of March 31, 2005 and approximately 1.5 million as of March 31, 2004. Revenue from Vodacom's operations outside of South Africa has grown to R2,974 million in the year ended March 31, 2006 from R2,274 million in the year ended March 31, 2005 and R1,505 million in the year ended March 31, 2004. Our share of Vodacom's operating profit from other African operations was R144 million in the year ended March 31, 2006, compared to an operating loss of R98 million in the year ended March 31, 2005 and an operating profit of R29 million in the year ended March 31, 2004.

Vodacom entered into a five year management agreement with Vee Networks Limited, or Vee Networks, effective April 1, 2004, pursuant to which Vodacom would have managed Vee Networks' cellular network operations in Nigeria with the intention of acquiring an equity stake in the business. On May 31, 2004, however, Vodacom announced that it had elected to terminate the management contract and abandon its plan to make an equity investment in the business of Vee Networks in Nigeria. Vodacom continued to provide technical support to Vee Networks for a period of six months. All negotiations to acquire a controlling interest in Vee Networks, trading as V-Mobile in Nigeria, have been terminated due to the parties being unable to reach agreement on the valuation of Vee Networks. In 2004, Econet Wireless Network had initiated various actions against Vee Networks and Vee Networks' shareholders. Vodacom was featured in some of these actions as a potential defendant in the event its acquisition of Vee Networks' shares occurred. Since Vodacom did not acquire any shareholding in Vee Networks, no action was instituted against it by Econet Wireless Network.

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

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Other African countries					
Customers (thousands) (at period end) (1)	**1,492**	**2,645**	**4,358**	**77.3**	**64.8**
Lesotho	80	147	206	83.8	40.1
Tanzania	684	1,201	2,091	75.6	74.1
Democratic Republic of the Congo	670	1,032	1,571	54.0	52.2
Mozambique	58	265	490	356.9	84.9
Churn (%) (2)					
Lesotho	65.1	17.3	22.3	(73.4)	28.9
Tanzania	30.0	29.6	28.5	(1.3)	(3.7)
Democratic Republic of Congo	20.2	23.1	28.1	14.4	21.6
Mozambique	0.3	11.3	32.2	n/a	185.0
Gross connections (thousands)					
Lesotho	51	70	98	37.3	40.0
Tanzania	404	746	1,353	84.7	81.4
Democratic Republic of the Congo	513	565	892	10.1	57.9
Mozambique	58	225	342	287.9	52.0
Penetration (%) (at period end) (3)					
Lesotho	5.1	7.4	12.9	45.1	74.3
Tanzania	3.3	5.1	9.2	54.5	80.4
Democratic Republic of the Congo	2.3	3.5	5.5	52.2	57.1
Mozambique	2.6	4.2	8.4	61.5	100.0
ARPU (4)					
Lesotho (ZAR)	125	92	78	(26.4)	(15.2)
Tanzania (ZAR)	128	81	67	(36.7)	(17.3)
Democratic Republic of the Congo (ZAR)	150	98	86	(34.7)	(12.2)
Mozambique (ZAR)	110	52	36	(52.7)	(30.8)
Number of employees (at period end) (5)	**761**	**1,074**	**1,154**	**41.1**	**7.4**
Lesotho	68	63	67	(7.4)	6.3
Tanzania	316	350	438	10.8	25.1
Democratic Republic of the Congo	334	538	479	61.1	(11.0)
Mozambique	43	123	170	186.0	38.2

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

(2) Churn is calculated by dividing the average monthly number of disconnections during the period by the average monthly total reported customer base during the period. Vodacom's contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment. For other African countries, each subsidiary has its own disconnection rule to disconnect inactive prepaid customers. Vodacom Lesotho disconnects its prepaid customers at the expiration of time window lock of 210 days. Vodacom Tanzania, Vodacom DRC and Vodacom Mozambique disconnect their prepaid customers if they record no revenue generating activity within a period of 215 consecutive days. See Item 4. "Information on the Company–Business Overview–Mobile communications."

(3) Penetration calculations are Vodacom estimates.

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

(5) Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees.

Lesotho

Vodacom owns an 88.3% interest in Vodacom Lesotho (Pty) Limited, or Vodacom Lesotho, a company incorporated in the Kingdom of Lesotho, while Sekha-Metsi Enterprises (Pty) Limited, a company incorporated in the Kingdom of Lesotho, owns the remaining 11.7% of Vodacom Lesotho. Vodacom Lesotho's network was commercially launched in May 1996. Vodacom Lesotho's license has a term of 20 years with 10 years remaining.

Although Vodacom Lesotho is a very small operation by South African standards, Vodacom launched its Lesotho operations due to the strategic geographical importance of Lesotho in terms of Vodacom's market share in neighboring South Africa. The network has 59 base transceiver stations, one mobile service switching center, two base station controllers, one short message service center, one intelligent network platform and one voicemail platform. Vodacom Lesotho's cumulative capital expenditures through March 31, 2006 were R225 million, compared to R210 million through March 31, 2005 and R201 million through March 31, 2004. The continued investment is an indication of the company's drive to expand and optimize the existing infrastructure ensuring the highest coverage and service levels to its customer base.

Vodacom Lesotho offers a variety of prepaid and contract products to customers. The current prepaid offering is known as Mocha-o-chele. Vodacom Lesotho's SuperTalk50 and SuperTalk100 contract products are the first and only contracts in Lesotho that offer bundled minutes and a subsidized handset. Additional contract packages include Corporate Executive, Master Plan, Budget Plan and Family Plan, all of which provide connectivity options without bundled services or subsidized handsets. Vodacom Lesotho also offers public phone services and a direct connect service allowing customers to access the Vodacom Lesotho network directly from their PABX. Vodacom Lesotho's distribution is maintained via eight Vodashops, six Super Dealers and four retail groups and Vodacom products can be purchased from over 100 outlets in Lesotho. Customers are serviced through a walk-in customer care center or via a customer care call center.

Vodacom Lesotho managed to increase its customer base by 40.1% to 206,000 as of March 31, 2006 from 147,000 as of March 31, 2005. The customer base increased by 83.8% in 2005 from 80,000 as of March 31, 2004. The prepaid plan is the most popular package and accounted for 97.1% of Vodacom Lesotho's total customers as of March 31, 2006, compared to 96.6% as of March 31, 2005 and 95.0% as of March 31, 2004. The net increase in total customers in the year ended March 31, 2006 is the result of 98,000 gross connections for the year, compared to 70,000 in the year ended March 31, 2005, and 51,000 in the year ended March 31, 2004. Vodacom Lesotho had a churn rate of 22.3% in the 2006 financial year, compared to 17.3% in the 2005 financial year and 65.1% in the 2004 financial year. The lower churn rate in the 2005 financial year was due to completion of the clean up of the inactive customer base and the result of the introduction of a seven-month disconnection policy in April 2004. The high churn rate in the 2004 financial year was the result of an ongoing process of cleaning up the inactive customer base.

Econet-Ezicell remains the only direct mobile GSM competitor in the region, with Vodacom Lesotho having superior coverage and infrastructure. Vodacom Lesotho had implemented 13 additional sites during the 2006 financial year. Vodacom Lesotho has increased its international roaming agreements to match that of Econet Ezicell. This will remain a priority in the 2007 financial year, with the core focus of retaining and expanding its estimated 80% market share as of March 31, 2006.

The headcount for Vodacom Lesotho increased to 67 employees as of March 31, 2006, compared to 63 employees as of March 31, 2005 and 68 employees as of March 31, 2004. The number of customers per employee improved by 31.6% from 2,333 customers per employee as of March 31, 2005 to 3,071 customers per employee as of March 31, 2006.

The regulatory environment in Lesotho continues to prove challenging. Changes in the operating environment include the licensing of a third network operator, Bethlehem Technologies, with an international gateway to provide data services, and a further amendment to Telecom Lesotho's license allowing it to provide a product, Lekomo Flexi, which is a mobile service using the Econet Ezi-Cell infrastructure. The license to Bethlehem Technologies has been challenged through court action by Lesotho Telecommunications Corporation. The Government of Lesotho has taken a decision to extend Telecom Lesotho's fixed-line exclusivity rights for an additional twelve month period.

Tanzania

Vodacom owns a 65% interest in Vodacom Tanzania Limited, or Vodacom Tanzania, a company incorporated in the United Republic of Tanzania, or Tanzania, while Planetel Communication Limited, a company incorporated in Tanzania, owns a 16% interest in Vodacom Tanzania, and Caspian Construction Proprietary Limited, a company incorporated in Tanzania, owns a 19% interest in Vodacom Tanzania. Vodacom Tanzania was initially granted a 15 year license to operate a GSM network in Tanzania, which became effective on December 21, 1999. The period of the license was subsequently extended for a further 10 years to 25 years from the initial date of the license. The roll-out of the network commenced in March 2000 and the commercial launch of the network occurred in August 2000.

Vodacom Tanzania became the largest mobile communications network operator in Tanzania within one year of launching. Vodacom Tanzania's cumulative capital expenditures through March 31, 2006 were R1.5 billion, or TSH297.6 billion, compared to R1.4 billion, or TSH240.1 billion, through March 31, 2005 and R1.1 billion or THS201.0 billion through March 31, 2004. Network coverage expanded to approximately 15% of the land surface of Tanzania and approximately 45% of the population as of March 31, 2006, compared to approximately 12% of the land surface and approximately 43% of the population as of March 31, 2005 and approximately 9% of the land surface and approximately 38% of the population as of March 31, 2004.

Vodacom Tanzania's current package offerings are Vodago, its prepaid product, Vodachoice, its contract product, and Vodatariffa, an SMS based information service. During the course of the 2006 financial year, Vodacom Tanzania introduced Vodafasta, a recharge product which allows prepaid customers to electronically recharge airtime via registered vendors. This product enhances the availability of Vodago prepaid airtime and reduces the cost of physical distribution. Vodachoice continues to be the preferred contract package although Vodajazza, a contract hybrid product offered on the prepaid billing platform, has gained popularity in the corporate market. The peoples phone "Adondo" continues to form an integral part of the company's public phone offering and strategy. Vodacom Tanzania was the first operator in Tanzania to introduce per second billing on October 3, 2003. Per second billing has proved highly successful in Tanzania, and as of March 31, 2006, approximately 2.0 million of Vodacom Tanzania's customers were utilizing this service, compared to approximately 980,000 as of March 31, 2005 and approximately 400,000 as of March 31, 2004. Vodacom Tanzania currently offers international roaming on 171 networks in 95 countries. Vodacom Tanzania launched an interactive voice response in the 2004 financial year to improve customer service levels. Customers can now be served in 2 languages, namely Kiswahili and English.

The Vodacom Tanzania market profile was 99.5% prepaid as of March 31, 2006, compared to 99.3% prepaid as of March 31, 2005 and 98.9% prepaid as of March 31, 2004, and this is not expected to change significantly in the near future. Vodacom Tanzania has increased the number of

customers registered on its network by 74.1% to approximately 2.1 million as of March 31, 2006 from approximately 1.2 million as of March 31, 2005 and approximately 684,000 as of March 31, 2004 mainly because of an 81.4% increase in gross connections to approximately 1.4 million in the year ended March 31, 2006, compared to approximately 746,000 in the year ended March 31, 2005 and approximately 404,000 in the year ended March 31, 2004. Vodacom Tanzania had a churn rate of 28.5% in the 2006 financial year, 29.6% in the 2005 financial year and 30.0% in the 2004 financial year due to the high levels of competition in Tanzania.

There are three other mobile operators licensed in Tanzania, Zantel, Mobitel and Celtel Tanzania. Zantel, which had historically operated exclusively on the island of Zanzibar, moved onto the mainland during the year and enhanced its coverage by entering into a national roaming agreement with Vodacom Tanzania, effective from July 31, 2005. Tanzania Telecommunication Company Limited, or TTCL, transferred its majority shareholding in Celtel Tanzania to the Tanzanian government and subsequently Celtel International B.V was acquired by Mobile Telecommunications Company, or MTC, of Kuwait. There was no national prepaid tariff reduction during the year, however, contract off-network tariffs were reduced in response to competition. Since the deregulation of the international market, many more international operators entered the market, which allowed Vodacom Tanzania to reduce international call tariffs toward the end of the year due to more favorable negotiated terminating settlement rates.

Vodacom Tanzania's estimated market share was approximately 58% as of March 31, 2006, compared to approximately 59% as of March 31, 2005 and approximately 57% as of March 31, 2004. Vodacom estimates that Celtel had a market share of approximately 27%, 26% and 25%, Mobitel had a market share of approximately 11%, 11% and 14% and Zantel had a market share of approximately 4%, 4% and 4% as of March 31, 2006, 2005 and 2004, respectively, based on the total estimated mobile market.

Vodacom Tanzania had a total headcount of 438 employees as of March 31, 2006, compared to 350 employees as of March 31, 2005 and 316 as of March 31, 2004. Included in employees as of March 31, 2006 are 10 secondees who are employed out of Vodacom International Limited. Effective April 1, 2005, a new managing director, Romeo Khumalo, was appointed the managing director, replacing Jose dos Santos, who was transferred to Vodacom Mozambique.

Vodacom Tanzania continues to support the development of local Tanzanian skills. Vodacom Tanzania views employee relations as a key factor in ensuring a positive working environment. Staff issues are addressed via a consultative forum where staff are given a platform to address issues and agreed actions are monitored on a monthly basis.

The regulatory environment has been dominated by the negotiation of the terms and conditions of migration of Vodacom's existing license to the new regulatory framework, which had not been finalized at the end of the year. Vodacom Tanzania also applied for its own international gateway license as part of this process. The arbitration of the historical dispute between TTCL and Vodacom in respect of outstanding interconnection fees was settled during the 2006 financial year as Vodacom decided not to pursue the case.

In July 2004 the Tanzanian Communications and Regulatory Authority issued new interconnection rates for both mobile and fixed operators. The mobile termination rate was proposed to be reduced from 17.5 US cents to 10.0 US cents from August 1, 2004 and 8.9 US cents from January 1, 2005 with further annual reductions in the future. Vodacom submitted comments in support of its views on the introduction of cost based interconnection and Vodacom Tanzania challenged the process by which the termination rates were introduced. A public hearing was held during September 2004 to discuss these issues, the result of which was that the revised 2005 interconnect rates were introduced from October 1, 2004 and the further reduction was delayed by two months to March 1, 2005.

In February 2006, the Tanzanian Communications and Regulatory Authority issued new interconnection rates for both mobile and fixed operators. The mobile termination rate was reduced from 8.9 US cents to 8.0 US cents from March 1, 2006, slightly above the previously published expected rate of 7.9 US cents. This rate is scheduled to remain in place until December 31, 2007.

A new Telecommunications Act was introduced, effective February 23, 2005. This ended the fixed line monopoly of Tanzanian Telecommunications Company Limited, and is expected to lead to the liberalization of the telecommunications market within the country. The Ministry of Telecommunications is currently engaging the industry in respect of a new regulatory framework, and accordingly licensing of services has yet to be finalized. Vodacom Tanzania has in the meantime commenced the routing of international traffic via Zantel at rates which are expected to improve margins over those offered by the Tanzanian Telecommunications Company Limited.

Democratic Republic of the Congo

On December 11, 2001, Vodacom, together with Congolese Wireless Network s.p.r.l., a company incorporated in the Democratic Republic of the Congo, formed Vodacom Congo (RDC) s.p.r.l., or Vodacom Congo, a company incorporated in the Democratic Republic of the Congo. Vodacom owns a 51% interest in Vodacom Congo, while Congolese Wireless Network owns the remaining 49% interest in Vodacom Congo. Congolese Wireless Network s.p.r.l. had a limited existing network in the Democratic Republic of the Congo. Vodacom Congo's network was officially launched under the Vodacom brand in May 2002. Vodacom Congo has 13 years remaining on its license.

During the year ended March 31, 2004, 51% of Vodacom Congo was proportionally consolidated in Vodacom's financial statements. Effective April 1, 2004, Vodacom Congo is being fully consolidated as a subsidiary in Vodacom's financial statements after certain clauses granting the minority shareholders participating rights were removed from the shareholders agreement.

Vodacom Congo is currently performing well under challenging circumstances. The local currency appreciated 13.0% against the US Dollar over the 2006 financial year, after depreciating 32.9% in the 2005 financial year, improving affordability levels for the general population. Improved affordability fuelled expansion of Vodacom Congo's customer base as the penetration rate of mobile customers in Congo increased from 3.5% as of March 31, 2005 to 5.5% as of March 31, 2006. ARPU was affected negatively as lower end users constituted a large part of the growth. Despite aggressive competition for market share, Vodacom has been able to retain dominance in the Congolese cellular market. An aggressive coverage strategy, implementation of an effective and aggressive sales and distribution strategy and improvement in consumer confidence and spending was the main contributing factors in achieving the successes in customer growth and improved profitability for the financial year.

Congo's first presidential and parliamentary elections took place on July 30, 2006, after an official postponement was announced in June 2005. It is hoped that the outcome of the elections will bring political stability and economic growth to the Democratic Republic of the Congo. Vodacom believes that its current coverage and market share levels provide Vodacom Congo a strong position to benefit from any economic upturn.

Network coverage has been rolled out in all of the nine provinces of the Democratic Republic of the Congo, including 184 towns and consisted of 373 base stations and four mobile service switching centers as of March 31, 2005, compared to 130 towns, 289 base stations and four mobile service switching centers as of March 31, 2005 and 71 towns, 227 base stations and four mobile service switching centers as of March 31, 2004. Network capacity in the main centers has also been upgraded to maintain quality and service. Vodacom Congo covered approximately 30% of the geographical area of the Democratic Republic of the Congo and approximately 67% of the population as of March 31, 2006, compared to approximately 26% of the geographical area and approximately 65% of the population as of March 31, 2005 and approximately 25% of the geographical area and approximately 55% of the population as of March 31, 2004.

Vodacom Congo is financing its roll-out in the Democratic Republic of the Congo with a non-recourse medium term facility and equity contributions. Vodacom Congo's cumulative capital expenditures through March 31, 2006 were more than US$323 million, compared to US$281 million through March 31, 2005 and US$227 million through March 31, 2004.

Vodacom Congo currently offers three products, a contract service, a prepaid service and a public phone service. The contract product is aimed at the corporate market with the focus on value added services and customer service. Service to contract customers was further enhanced in the 2006 financial year with the possibility to migrate to time-sharing options and the introduction of the corporate PABX product. The prepaid and public phone products are aimed at the general Congolese market with the main competitive advantage being coverage, network quality and distribution.

To further enhance data revenue streams, Vodacom Congo commercially launched GPRS in February 2006. The application was introduced to support data transfer requirements during the electoral process and meet the data demands of local businesses and corporate clients.

In May 2005, Vodacom Congo launched an electronic voucher solution called "Voda E" in order to strengthen its distribution capabilities and enable customers to recharge to the value of US$0.30, compared to the previous lowest denomination of US$1.00, and to transfer airtime among users via text messaging with the use of a standard handset. The new airtime distribution platform accounted for approximately 30% of all voucher sales on the network in the 2006 financial year.

Vodacom Congo's customer care center serves customers in their choice of French, English, Lingala, Kingongo, Swahili and Tshiluba. Vodacom Congo's interactive voice response handled in excess of 45,000 calls per day as of March 31, 2006. Vodacom Congo has been successful in establishing international roaming agreements with 328 operators in 158 countries.

Vodacom Congo's customer base consisted of 97.9%, 97.9% and 97.5% prepaid customers as of March 31, 2006, 2005 and 2004, respectively. Vodacom Congo increased customers significantly in the 2006 financial year to approximately 1.6 million customers as of March 31, 2006 from approximately 1.0 million customers as of March 31, 2005 as a result of approximately 892,000 gross connections, coupled with a churn percentage of 28.1%, in the 2006 financial year, compared to approximately 565,000 gross connections, coupled with a churn percentage of 23.1%, in the 2005 financial year. As of March 31, 2004 Vodacom Congo's customer base consisted of 670,000 customers as a result of approximately 513,000 gross connections and a churn percentage of 20.2% in the 2004 financial year. Vodacom competes on the basis of low priced, quality handsets, effective distribution channels, network coverage and network quality.

Vodacom Congo continued to be the market leader in the Democratic Republic of the Congo with an estimated market share of approximately 48% as of March 31, 2006, compared to 47% as of March 31, 2005 and 2004 based on the total estimated mobile market. Celtel is the main competitor in the Democratic Republic of the Congo with a similar approach of covering a large part of the population across the country, focusing its coverage in the main city centers. Celtel and SAIT have embarked on an aggressive pricing campaign and further coverage roll-out. Celtel had an estimated market share of approximately 44% as of March 31, 2006, compared to approximately 46% as of March 31, 2005 and 45% as of March 31, 2004 based on the total estimated mobile market. The other two competitors in the Democratic Republic of the Congo, SAIT and Congo Chine Telecom, had estimated market shares of approximately 2% and 6%, respectively, as of March 31, 2006.

Vodacom Congo had 479, 538 and 334 employees as of March 31, 2006, 2005 and 2004, respectively. The process of evaluation, identifying and training of local staff is a continuous focus of the company as part of the skills transfer process.

The National Regulatory Agency, or NRA, has been active during the year working with international consultants appointed by the World Bank on the reformation of the telecommunication legislative framework and regulations. Key focus areas included:

– spectrum (national planning, management and fees);

– interconnection guidelines and principles;

– cost modelling;

– numbering (national planning, management and fees); and

– universal service fund (constitution and funding mechanisms).

Draft guidelines and regulations were submitted to network operators for consultation purposes. The NRA has also been holding public hearings in regards to the introduction of 3G technology. The NRA's findings are expected to soon be submitted to the government.

SuperCell, affiliated to MTN-Rwanda cell, was previously granted a license on a regional basis by the Rassemblement Congolats pour la Democratic, or RCD, political organization. The new political order established RCD as a recognized political power and SuperCell was granted a national license. Although the issue remains unresolved, the National Regulatory Agency's position is currently that no local interconnection is allowed with SuperCell. In view of the controversy associated with SuperCell's operations, the Minister of Post, Telephone and Telegraph subjected the validity of the SuperCell license to a minimum required investment in the Democratic Republic of the Congo by SuperCell of core network elements.

In addition to its GSM license rights, Vodacom Congo was granted additional exploitation rights for PABX (including an assigned spectrum for corporate direct connection) and internet / WiMax.

Mozambique

Vodacom Mozambique was established on October 23, 2003 and launched commercial operations on December 15, 2003. Vodacom owns 98% of VM (S.A.R.L.), trading as Vodacom Mozambique and the remaining 2% is held by a local consortium named EMOTEL. Vodacom Mozambique was awarded its license in August of 2002, but due to the fixed-line operator and the cellular operator being one company with no interconnect rates applicable, the license was not accepted until August 2003 when the issues were satisfactorily resolved. The license is a 2G GSM license and will expire in 2018.

Vodacom Mozambique's infrastructure roll-out consisted of one mobile services switching center, four base station controllers and 169 base transceiver stations as of March 31, 2006. The network had a capacity of 1.0 million customers as of March 31, 2006, with an increase to a capacity of 1.5 million planned for 2007. Vodacom Mozambique's cumulative capital expenditures, excluding the license, through March 31, 2006 were approximately R605 million, or approximately MZM 2,645 billion, compared to R696 million, or MZM 2,173.7 billion, through March 31, 2005 and R478 million, or MZM 1,785.6 billion, through March 31, 2004. The South African Rand equivalent expenditure is lower in the current year due to the devaluation of the Mozambique Meticals against all major currencies. GPRS / Enhanced Data for GSM Evolution, or EDGE, is expected to be available by the end of June 2006 for contract customers and at the end of July 2006 for prepaid customers. EDGE is a data service that provides a faster version of GSM wireless service.

Vodacom Mozambique offers customers contract and prepaid plans and rolled out public phones in the 2006 year. Prepaid packages accounted for 98.6%, 98.5% and 98.3% of the gross connections in the 2006, 2005 and 2004 financial years, respectively. Contract products are mainly aimed at the corporate and business market, while the prepaid products are aimed at the large informal market. Vodacom Mozambique has an interactive voice response in place and customer care can handle customer queries in two languages, namely Portuguese and English.

Vodacom Mozambique has managed to increase its customer base to 490,000 customers as of March 31, 2006 from 265,000 customers as of March 31, 2005 and 58,000 customers as of March 31, 2004. The increase in total customers is as a result of 342,000 and 225,000 gross connections in the 2006 and 2005 financial years, as well as a churn rate of 32.2% in the 2006 financial year and 11.3% in the 2005 financial year.

During the 2006 financial year, Vodacom Mozambique moved towards an exclusive distribution arrangement, expanded its distribution network and introduced regional distribution centers. Vodacom Mozambique also increased its growth incentive and target parameters.

Vodacom Mozambique's only competition is Moçambique Cellular, previously Telecomunicações Móveis de Moçambique, Lda, or mCel, a company owned by Telecomunicações de Moçambique, or TDM, who is also the national fixed-line operator. Vodacom Mozambique had an estimated market share of approximately 30% as of March 31, 2006, compared to approximately 33% as of March 31, 2005 and 11% as of March 31, 2004 based on the total estimated mobile market. Vodacom Mozambique is focusing on coverage expansion, building sound distribution and delivering innovative value propositions underscored by a warm and receptive brand identity. A unique point of differentiation for Vodacom Mozambique has come from its corporate social investment projects which saw the complete reconstruction of a school in Maputo and the donation of sorely needed books and encyclopedias to schools nationally.

mCel continues to be an aggressive competitor. Given its greater financial and market power, mCel remains a formidable opponent in the foreseeable future. As of February 2006, mCel had soft-launched its GPRS offering to contract customers in the Maputo area.

Vodacom Mozambique employed 170 and 123 people as of March 31, 2006 and 2005, respectively. Effective April 1, 2005, a new managing director was appointed. Vodacom Mozambique continues to support the development of local skills. A succession plan and development programs were implemented to transfer skills and knowledge to local employees. Staff issues are addressed via a consultative forum where they are given a platform to address issues. Vodacom Mozambique embarked on an HIV/AIDS education and awareness campaign in December 2005 that included an Industrial Theatre and various speakers, which was well received by employees.

Draft universal service fund regulations are being reviewed by the Ministry of Communications. Indications are that the regulations will make provision for operator representatives to sit on the board of the Fund. Intelcon Research & Consulting Limited, consultants appointed by the National Regulatory Authority, released their report on a proposed pilot project to introduce universal access followed by a workshop to discuss the pilot project and proposed legislation to govern administration of the universal access fund. The pilot project will focus on areas in Zambezia and Nampula provinces in the northern parts of Mozambique. The project will be funded by the World Bank and a subsidy of US$3.2 million is to be allocated to the successful bidder. Operators are invited to bid for the project. Apart from providing the necessary coverage, the winning operator is expected to roll-out over 900 community pay-phones and provide the necessary support to the operators of these phones. The tender document is expected to be released by September 2006, with the project to commence in December 2006. Vodacom is well into year three in terms of its license obligations for infrastructure roll-out.

The Ministry of Commerce and Trade is preparing a competition policy for Mozambique. The project is funded by the United States Agency for International Development, or USAID, and the World Bank. A discussion document has been circulated for comment and Vodacom Mozambique is a member of the ministerial task force that is assisting in the development of the policy.

All operators have been informed by the Instituto Naçional das Comunicaçoes de Moçambique, or INCM, that all licenses are to be re-issued in compliance with the new Telecommunications Law of 2004. Vodacom Mozambique was invited to submit suggestions to any amendments it wished to make to its existing license.

In March 2006 the INCM was formally notified by the Administrative Tribunal that, upon Vodacom Mozambique's application, Resolution 10/05 of December 20, 2005 that established significantly lower interconnection rates has been suspended. The INCM is waiting to reduce interconnection rates. Current attempts are being resisted to ensure that the proper procedure is followed. If the rate reduction is enforced, it is estimated that it would result in a decrease of approximately US$400,000 in revenue for the 2007 financial year. It is believed that the launching of GPRS and EDGE, as well as the prospect of gaining additional market share in the corporate customer and sophisticated high spending customer area, may mitigate this reduction in part.

Vodacom Mozambique believes that its ability to strictly manage costs in the face of low ARPU and low minutes of usage, while expanding coverage and distribution and intensifying promotional and product offerings, will be critical to achieving improved results.

Due to the competitive and economic environment in which Vodacom Mozambique operates, Vodacom assessed its assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of these assets was based on the fair value less cost of disposal at March 31, 2006 and 2005. The fair value of the assets was based on the assumption that the assets would be disposed of on an item by item basis. The amount by which the carrying amount exceeded the recoverable amount was recognized as an impairment loss in Vodacom's and Telkom Group's consolidated financial statements for the 2005 financial year. In the 2006 financial year, this impairment loss was reversed in part due to an increase in the fair value of the assets.

Procurement – Vodacom South Africa

Vodacom South Africa solicits bids for all goods and services in excess of R1 million. Bids are through a closed tender system by invitation only. A multi-disciplinary cross-functional team evaluates and awards bids to the best supplier based on the best overall score, taking into account technical specification, delivery time, costing, financial viability and the participation of black economic empowerment partners.

Vodacom spent approximately 66.2% of its eligible procurement expenditure with BEE companies during the year ended March 31, 2006, compared to 75% during the year ended March 31, 2005 and 60% during the year ended March 31, 2004.

Vodacom seeks to utilize at least two suppliers for all critical equipment where possible to minimize supply risk. Vodacom's main technology suppliers are Siemens for the core network, and Alcatel and Motorola for the radio networks.

CAPITAL EXPENDITURES

For information relating to our capital expenditures, see Item 5. "Operating and Financial Review and Prospects–Liquidity and Capital Resources–Group Liquidity and Capital Resources."

REGULATION AND LICENSE REQUIREMENTS

Overview

The licensing and provision of telecommunications services in the Republic of South Africa has historically been subject to the Telecommunications Act and the extensive regulations made under the Telecommunications Act. The Telecommunication Act was repealed by the Electronic Communications Act when the Electronic Communications Act came into effect on July 19, 2006. While a new licensing regime will be created by the Electronic Communications Act, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime. Regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. As a result, the regulatory environment is evolving, lacks clarity in a number of areas and is subject to interpretation, review and amendment as the telecommunications industry is further developed and liberalized. In addition, the regulatory process entails a public comment process, which, in light of the politicized issue of privatization of industries such as telecommunications in South Africa, makes the outcome of the regulations uncertain and may cause delays in the regulatory process. A number of significant matters have not been addressed or clarified.

Regulatory authority

In 2000, the Independent Communications Authority of South Africa Act, 13 of 2000, created ICASA, a new regulatory body for the telecommunications and broadcasting industries. ICASA currently serves as the primary regulatory and licensing authority for the South African communications industry, except with respect to those specific licenses that can only be granted by the Minister of Communications. In respect of these specific licenses, ICASA is empowered to evaluate license applications made in response to invitations issued by the Minister of Communications and to make recommendations to the Minister, who is vested with the final power to grant licenses, which are then issued by ICASA. Upon its establishment, ICASA inherited a legacy of regulatory problems from its predecessors. It has been reported that ICASA may currently lack adequate resources to effectively fulfill its regulatory and licensing functions and to deal with regulatory challenges that continue to change given the rapidly evolving telecommunications environment.

Policy directions

The Telecommunications Act entitled the Minister of Communications, after a public comment period, in consultation with ICASA and after referral to Parliament for comment, to issue and publish policy directions consistent with the objectives of the Telecommunications Act. Once such policy directions have been issued, ICASA is obliged to perform its regulatory and other functions in accordance with such directions.

Regulations

The Telecommunications Act entitled ICASA to make regulations, drafts of which must first be published in the Government Gazette for public comment before final regulations can be prescribed and published in the Government Gazette by the Minister of Communications.

Under South African law, it is possible for licensees such as Vodacom and Telkom and for other interested parties to have the regulations and rulings issued by ICASA reviewed and tested in a court of law for compliance with the objectives and other provisions of the Telecommunications Act, and other relevant laws such as the South African Constitution.

The Telecommunications Act is not entirely clear on a number of issues which are expected to be addressed by regulation. In addition, because ICASA was only established in 2000 and the regulations governing the telecommunications industry in South Africa are evolving, lack of clarity exists in a number of areas that are still subject to interpretation, review and amendment. Therefore there is some degree of regulatory uncertainty for Telkom, Vodacom and other communications providers.

The regulatory process entails a public comment process which, in light of the politicized issue of the privatization of industries such as telecommunications in South Africa, makes the outcome of the process uncertain and may cause delays.

Licensing of the second national operator

In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, SNO-T, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information and communications operations. ICASA issued this license on December 9, 2005, however, SNO-T is not expected to commence business activities until the second half of the 2006 calendar year.

Underserviced areas

A process has also commenced to issue additional licenses to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5%. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licenses to successful bidders in seven of them and has issued invitations to apply for licenses in the remaining 20. It is expected that further licenses will be issued in the 2006 calendar year.

Determinations by South African Minister of Communications

In September 2004, the South African Minister of Communications issued determinations, as provided for in the Telecommunications Act. Since February 1, 2005, pursuant to the determinations:

- mobile cellular operators have been permitted to obtain fixed telecommunications links from parties other than Telkom;
- VANS operators and private network operators have been permitted to resell the telecommunication facilities that they obtain from Telkom;
- VANS operators have been permitted to allow their services for the carrying of voice, including voice over internet protocol;
- Telkom is no longer the sole provider of facilities to VANS operators; and
- licensing for the provision of payphone services has been expanded.

These determinations are incorporated in the Electronic Communications Act.

Electronic Communications Act

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the Telecommunications Act. The bill, renamed the Electronic Communications Bill, was passed by the

Parliament of South Africa in December 2005 and was signed by the President of South Africa on April 18, 2006. The Electronic Communications Act came into effect on July 19, 2006. All existing licenses are to remain valid until converted to new licenses in line with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. As a result, Telkom's licenses will be converted to new licenses in accordance with the new licensing. We expect that the new licensing framework will result in the market becoming more horizontally integrated with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business. In addition, the process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit. See "—Legislative developments" below.

Interconnection

The Telecommunications Act established the general conditions for interconnection among licensed operators. In particular, the Telecommunications Act guaranteed the right of any licensed operator to interconnect with operators licensed to provide public switched telecommunication services, including the second national operator. The Telecommunications Act empowered ICASA to prescribe guidelines as to the terms and conditions of interconnection agreements and it conferred on ICASA powers to intervene and propose, or to set its own terms and conditions where the parties were unable to reach an agreement or the agreed terms are not consistent with the relevant guidelines. Any terms and conditions of an interconnection agreement set by ICASA are binding between the parties.

In 2000, ICASA made, and the Minister of Communications approved and promulgated, interconnection guidelines, which stipulate, among other things, that certain operators may be declared to be "Public Operators," that certain operators may be declared to be "Major Operators," and that certain telecommunication services may be declared to be "Essential Services." A Major Operator must provide Essential Services to Public Operators at the Long Run Incremental Cost, or LRIC, of those services, including a reasonable allocation of common costs and the reasonable cost of capital. The Electronic Communications Act replaced the concept of Major Operator status with that of significant market power in a market segment and empowers ICASA to impose pro-competitive conditions on operators found to have significant market power, which may affect the manner in which interconnection services are to be provided by such operators.

Supplementary interconnection guidelines, approved by the Minister of Communications, were made by ICASA in 2002. These guidelines declare Telkom to be a Major Operator, its interconnection services to be Essential Services and SNO-T, the mobile cellular operators and the underserviced area licensees to be Public Operators. An amendment to the Telecommunications Act in 2004 declares that, for the purpose of the interconnection guidelines, Sentech, Telkom, SNO-T, the mobile cellular operators, national long-distance licensees, local area licensees, under serviced areas licensees, and public payphone licensees are Public Operators. The guidelines further prescribe that the Essential Services must be made available at the "Fully Allocated Cost" of those services for the first two years, and thereafter, LRIC based interconnection prices will become mandatory. In May 2005 ICASA initiated an enquiry into whether MTN and Vodacom should be declared Major Operators. If MTN and Vodacom were declared to be Major Operators, they would be required, like Telkom, to provide interconnection services at LRIC based interconnection prices.

Draft interconnection guidelines were published for comment in January 2005. These guidelines consolidate all previous interconnection guidelines, however, they propose to extend the right to interconnection services at LRIC based prices to all licensees. Public hearings on these guidelines were held on March 20 and 22, 2006, but the final regulations have not yet been published.

The interconnection agreements between Telkom and Vodacom and MTN that preceded the Telecommunications Act were renegotiated and amended in 2001. An interconnection agreement, on substantially the same terms, was negotiated and concluded with Cell C. We have received a request to interconnect from SNO-T and negotiations on an interconnection agreement with them are under way.

Facilities leasing

As in the case of interconnection, the Telecommunications Act established the general conditions for the leasing of telecommunications facilities. The Telecommunications Act guaranteed the right of licensed operators to obtain telecommunications facilities from operators licensed to provide public switched telecommunication services, including the second national operator, and it empowers ICASA to prescribe guidelines for facilities leasing agreements. The Telecommunications Act conferred on ICASA powers to intervene and propose, or to set its own terms and conditions where the parties were unable to reach an agreement or where the agreed terms are not consistent with the relevant guidelines, regulations or the Telecommunications Act. Any terms and conditions of a facilities leasing agreement set by ICASA are binding between the parties.

In 2000, ICASA made, and the Minister of Communications approved and promulgated, facilities leasing guidelines, which stipulate, among other things, that certain operators may be declared to be "Public Operators," that certain operators may be declared to be "Major Operators," and that certain telecommunication facilities may be declared to be "Essential Facilities." A Major Operator must provide Essential Facilities to Public Operators at the LRIC of those facilities, including a reasonable allocation of common costs and the reasonable cost of capital. An amendment to the Telecommunications Act in 2004 declares that, for the purpose of the facilities leasing guidelines, Sentech, Telkom, SNO-T, the mobile cellular operators, national long-distance licensees, local area licensees, and licensees in underserviced areas are Public Operators. The Electronic Communications Act replaced the concept of Major Operator status with that of significant market power in a market segment and empowers ICASA to impose pro competitive conditions on operators found to have significant market power, which may affect the manner in which facilities are leased by such operators.

In addition, the Telecommunications Act required us to allow SNO-T to use all of our telecommunications facilities for the first two years of its license, on a resale basis, for the purpose of providing public switched telecommunication services. As a result, SNO-T will be able to lease facilities from Telkom for a two year period to provide its services, and is allowed to have shared access to the local loop for a period of two years. It is unclear whether we will be required to allow access to SNO-T at LRIC-based prices beyond such two year period in respect of other services, although the guidelines issued by ICASA may be interpreted to prescribe that beyond the two year period, LRIC prices will become mandatory as described below. We may also be required to lease or otherwise make our telecommunications facilities available to SNO-T beyond the first two years of its license. The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop. The Minister of Communications has announced that she planned to issue policy directives with respect to the time period for the unbundling of Telkom's local loop and the sharing of access to Telkom's undersea cables and has formed a committee to evaluate the unbundling of Telkom's local loop.

The supplementary facilities leasing guidelines issued by ICASA and approved and promulgated by the Minister of Communications in 2002 declared Telkom to be a Major Operator and list a set of Telkom's facilities that are declared to be Essential Facilities. Among those essential facilities is

shared access to the local loop by SNO-T for the first two years of its license. The guidelines further prescribe that the Essential Facilities must be made available at the Fully Allocated Cost of those facilities for the first two years and thereafter LRIC based prices will become mandatory.

Draft facilities leasing guidelines were published for comment in January 2005. These guidelines consolidate all previous facilities leasing guidelines, however, they propose to extend the right to obtain facilities at LRIC based prices to all licensees. Public hearings on these guidelines were held on March 23 and 24, 2006, but the final regulations have not yet been published. If we are unable to negotiate favorable terms and conditions for the provision of the services and facilities covered by the guidelines or ICASA otherwise imposes terms and conditions that are unfavorable to us, our business operations could be disrupted and our net profit could decline.

Tariffs

Regulations made under the Telecommunications Act impose a price cap formula on a basket of Telkom's specified services, including installations; prepaid and postpaid line rental; local, long distance and international calls; fixed-to-mobile calls; public payphone calls; ISDN services; our Diginet product; and our Megaline product. A similar cap applies to a sub-basket of 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 80% of Telkom's operating revenue in the year ended March 31, 2005 was included in this basket, compared to approximately 66% of Telkom's operating revenue in the year ended March 31, 2006. The reason for the decrease was due to a change in methodology of the amount included in the basket for purposes of our filing with ICASA in the 2006 financial year to exclude the mobile termination fees for fixed to mobile calls. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. The price cap operates by restricting the annual percentage increase in revenues for all the services included in the basket that are attributable solely to price changes to annual inflation, measured by changes in the consumer price index, less a specified percentage.

Historically, the annual permitted percentage increase in revenues from both the whole basket and the residential sub-basket was 1.5% below inflation. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft regulations have also been published for comment on the pricing and provision of ADSL services, which would, among other things, prohibit Telkom from charging a monthly rental for providing ADSL service and limit Telkom to charging only an installation fee for such service.

ICASA approved a 2.2% increase in the overall tariffs for services in the basket effective January 1, 2004, a 0.2% increase in the overall tariffs for services in the basket effective January 1, 2005 and a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005. Due to a delay in the finalization of the tariff regulations, ICASA allowed us to implement our new tariffs effective September 1, 2005. In line with Telkom's strategy of delivering excellent service to customers at competitive prices, on June 5, 2006 Telkom announced average price reductions on its regulated basket of products and services of 2.1%, effective August 1, 2006. As a result, from August 1, 2006, the following price changes will be effective:

• ADSL rental	24% average decrease
• Local call charges	No change
• Long distance call charges	10% decrease
• International call charges	10% average decrease
• Data products	9% average decrease
• Subscription: analog line rental	8% average increase

Pursuant to its mobile cellular telecommunications license, Vodacom has to lodge all tariff plans or any amendments to existing tariff plans with ICASA. No increase in the price of any service or in some cases, a basket of services, greater than the percentage annual increase in the consumer price index is allowed without ICASA's approval. Vodacom South Africa's most recent annual tariff amendments were lodged on August 26, 2005 and approved by ICASA on September 6, 2005. The amendments resulted in an average tariff decrease of 4.9%, which was effective October 1, 2005. In 2004, Vodacom South Africa's annual tariff filing resulted in an average tariff increase of 0.4%, effective November 1, 2004.

See Item 3. "Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom's revenue and net profit could decline if wholesale price controls are imposed on it" and "–Regulation and License Requirements."

Universal service obligations

As part of our five year exclusivity period ended May 7, 2002, we had 16 service quality and line roll-out targets for our fixed-line business. We substantially met all of our fixed-line service and line roll-out targets with the exception of our residential fault rate target, our aggregate fixed-line roll-out target and targets which required us to provide service to underserviced villages and to replace analog lines with digital lines. ICASA has started a process to amend our PSTS license to bring it in line with the license issued to SNO-T, as provided for in the Telecommunications Act. As a result of this process we expect that quality of service targets will again be imposed on us with penalties if targets are not met.

Our public switched telecommunications license requires us to provide basic voice telephone service to every person in South Africa who requests such service, who can afford it and who enters into a contract with us for such service, and to install, connect, maintain and repair a telephone to use such service, and provide access to emergency organizations and directory information services. However, we are not required to provide the foregoing services where ICASA determines that the demand for such services can be met by other means and, as a result, it would be unduly burdensome in the circumstances for us to provide the telecommunications service requested.

The Minister of Communications issued a public statement in 2002 describing our future obligations to assist in the continued development of communications services to the South African population. The obligation will be a contribution to the Universal Service Fund, or USF, and ongoing universal service obligations imposed on us through the generic terms of our license. In the past we had to contribute to the USF R10 million per annum escalated by inflation from 1997. Beginning in the 2005 financial year, such contribution is set at 0.2% of the prior year's annual turnover derived from the provision of telecommunications service that it is licensed to provide. Vodacom paid R45 million in June 2005 for this contribution pursuant to its license. Vodacom's contribution to the USF is on the same basis as Telkom.

New social obligations were imposed with Vodacom's new 1800MHz license and third generation spectrum license whereby Vodacom must provide and distribute 2.5 million SIM cards and 125,000 handsets over a period of five years to underserviced persons in underserviced areas and internet access to 5,000 schools and 140 institutions for persons with disabilities over an eight-year and three-year period, respectively. Vodacom's plan with respect to the implementation of these obligations is still pending ICASA's approval. Once the implementation plan is approved, Vodacom intends to commence with a roll-out. The Department of Communications has assisted in the identification of certain beneficiaries within various government departments and the license stipulates that roll-out can only commence upon approval of the implementation plans by ICASA. The implementation plans were submitted to ICASA in August 2005, but approval has not yet been received. The provision of internet usage is expected to be charged at a 50% discount rate as provided by the Telecommunications Act.

The training of the community services telephone operators in business skills received significant attention during the 2006 and 2005 financial years. During the 2006 financial year, Vodacom funded the training of community services telephone operators in areas such as growth management, while focusing on financial management and marketing in the 2005 financial year. Vodacom's future universal service obligations will also consist of a contribution to the USF, and possible new universal access obligations.

Regulatory accounts

Under the Telecommunications Act and our public switched telecommunications service license, we are required to report and account to ICASA, our retail and wholesale activities using a specific accounting methodology set out in a Chart of Accounts and Cost Allocation Manual, or COA/CAM. The adoption of this methodology by us requires the aggregating and disaggregating of general ledger accounts in a different manner than we prepare accounts in accordance with IFRS.
These accounts are known as the regulatory financial statements. It also requires a reconciliation of our regulatory accounts with our annual financial statements. We were required to put the necessary accounting and management information systems, which would have enabled us to prepare such reports and accounts, in place by May 7, 2002, subject to ICASA issuing the COA/CAM regulations. The regulations, however, were only published on July 19, 2002. The regulations required the first submission of our regulatory financial statements to take place by September 30, 2003.
Following negotiations, ICASA agreed to postpone the deadline for the submission of audited regulatory financial statements on an historic cost basis to September 30, 2004 and on a current cost basis, including LRIC statements, to June 30, 2005. Telkom submitted audited historic cost reports on September 30, 2004. Telkom was not able to provide audited regulatory financial statements by June 30, 2005 and requested ICASA for an extension to provide audited regulatory financial statements on a current cost basis until September 30, 2005 and on a LRIC basis until September 30, 2006. Telkom submitted its current cost regulatory financial statements to ICASA on September 30, 2005. Telkom proceeded with the final phase of implementing the complete regulatory financial statements and has implemented a cost model that will calculate the long run incremental cost of the network services on March 31, 2006. The current cost regulatory financial statements with reports indicating the long run incremental cost for the 2006 financial year are therefore expected to be submitted to ICASA on September 30, 2006.The COA/CAM regulations also require us to develop procedures manuals that set out how we will implement the COA/CAM accounting methodology in practice. The procedures manual for the accounting separation on an historical basis was approved by ICASA on June 30, 2004, while the procedures manual for the conversion to the current cost basis was submitted to ICASA on July 5, 2005 and the procedure manual for accounting on a LRIC basis was submitted to ICASA on March 31, 2006 for their approval.

Carrier pre-selection

The Telecommunications Act mandated that fixed-line operators were required to implement carrier pre-selection, which will enable customers to choose and vary their fixed-line telecommunications carrier for long distance and international calls. Regulations were only published on June 24, 2005 for the implementation of carrier pre-selection in two phases. In phase one, call-by-call carrier pre-selection must be implemented and must be provided by an operator within two months of it being requested by another operator. In phase two, fully automatic pre-selection must be implemented and must be provided by an operator within ten months of it being requested by another operator. Telkom had already conditioned its exchanges to handle call-by-call carrier pre-selection by December 31, 2003. Telkom will not be able to fully implement carrier pre-selection until the SNO-T's interconnection systems and the inter-operator process and systems to support carrier pre-selection become available, however, Telkom does not believe that it will be able to implement automatic carrier pre selection within ten months of it being requested. Regulations indicate that the system set-up costs may be recovered as part of the prescribed annual review of fees and charges, but no further

detail is available. We are currently engaged with ICASA to define the manner in which such costs could be recovered. In addition, we may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline and the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

Slamming, which is the transfer of a user from one operator to another without such user's knowledge or authorization, is to be prohibited. There is a risk that the procedure to combat slamming may not be effective and would result in further market share losses. Carrier pre-selection is not applicable to mobile cellular operators.

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. A framework number portability regulation was published at the end of 2004 that generically provides for the introduction of fixed-to-fixed and mobile-to-mobile number portability. It is currently expected that Telkom will be required to provide "block" number portability in the 2006 calendar year and individual number portability later, but within 12 months from being requested by an operator. The full set of regulations for the implementation of fixed number portability, however, have not yet been published. Telkom has received a request from SNO-T to implement both block and individual number portability and discussions on the implementation of the required inter operator systems are under way. Telkom will not be able to determine the time required to implement number portability until the functional specification regulations are published. On September 30, 2005, ICASA published the number portability regulations and functional specifications for mobile number portability which requires that mobile number portability must be implemented by June 30, 2006. Vodacom is an active participant in the mobile industry body which was established to ensure a smooth implementation of mobile number portability. This body is well established in its preparation for the launch of mobile number portability and had discussed the request for proposals for a vendor to provide a centralized reference database solution to handle mobile number portability. ICASA and the cellular operators have been in consultation over the last ten months to agree to the functional and technical specifications to ensure compliance with the Telecommunications Act. As a result, mobile number portability is expected to be implemented in the 2007 financial year.

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. In addition, we may not be able to implement these requirements in a timely manner, which could result in our business being disrupted and cause our net profit to decline and the implementation of these requirements will likely further increase competition and cause our churn rates to increase.

Unbundling the local loop

While the Telecommunications Act provided that we were not to be required to unbundle our local loop for a period of two years after the issue of a license to SNO-T, it is envisioned that as the industry is further liberalized, operators such as us with existing facilities and access lines, will be obliged to make these available to new entrants. SNO-T is entitled to lease our telecommunications facilities for a period of two years after being licensed. Furthermore, although it is not our interpretation, the relevant provisions may be interpreted that SNO-T or other operators may have shared access to the local loop, which is understood to mean access to the higher bandwidth for xDSL applications beyond such two years. The foregoing is an exception to the generic provision that the local loop will not be unbundled during the first two years of SNO-T's license. The Electronic Communications Act provides that ICASA may prescribe a framework for the unbundling of Telkom's local loop. The Minister of Communications has announced that she planned to issue policy directives

with respect to the time period for the unbundling of Telkom's local loop and the sharing of access to Telkom's undersea cables and has formed a committee to evaluate the unbundling of Telkom's local loop.

Legislative developments

Electronic Communications Act

In March 2005, the Minister of Communications tabled a Convergence Bill in Parliament to promote convergence and establish the legal framework for convergence in the broadcasting, broadcasting signal distribution and telecommunications sectors that repealed the Telecommunications Act, however, all existing licenses are to remain valid until converted to new licenses in accordance with the new licensing regime and regulations made under the Telecommunications Act are also to remain in force until new regulations required are made to fully implement the provisions of the Electronic Communications Act. The bill, renamed the Electronic Communications Bill, was passed by the Parliament of South Africa in December 2005 and was signed by the President of South Africa on April 18, 2006. The Electronic Communications Act came into effect on July 19, 2006.

The Electronics Communications Act aims to supplement or replace current sector specific legislation and change the market structure from a vertically integrated, infrastructure based, market structure to a horizontal, service based, technology neutral, market structure with a number of separate licenses being issued for different areas, and to clarify the different roles of ICASA and the Minister of Communications in policy development, licensing and regulations. The main aspects addressed by the Electronic Communications Act are:

- the policy making powers of the Minister of Communications;
- the regulation making, licensing and radio frequency spectrum control powers of ICASA;
- the licensing framework for communications and broadcasting services;
- the power of ICASA to intervene where special market conditions exist, such as significant market power or essential facilities;
- the obligations of licensees to interconnect and lease telecommunications facilities, and the powers of ICASA to enforce such obligations; and
- transitional provisions to address the conversion of existing licenses to the new licenses envisioned in the Electronic Communications Act.

Policy making

The Minister of Communications may make policies and issue policy directions to ICASA except in respect of the granting, amendment or withdrawal of communications or broadcasting licenses. ICASA, in exercising its functions, must consider policies made or policy directions issued by the Minister.

Regulations

ICASA may, subject to public consultation, make regulations on any matter as provided in the Electronic Communications Act, and any such regulation may declare any contravention thereof to be an offense. ICASA must, among other things, make regulations relating to the granting of licenses, radio frequency spectrum management, allocation of numbers, interconnection, facilities leasing, the declaration of essential communications facilities and the identification of relevant markets for the purpose of determining the existence of significant market power. ICASA may also make regulations to impose special obligations on licensees found to have significant market power in a relevant market.

Licensing framework

The types of licenses that can be granted are:

- electronic communications network services for the provision of communications infrastructure for the own use of the licensee or for the use of other licensees, including broadcasters;
- electronic communications services for the conveyance of communications over electronic communications networks, but excluding broadcasting services;
- broadcasting services for the unidirectional broadcasting of television or sound material; and
- radio frequency spectrum licenses.

ICASA may make regulations prescribing that certain services may be provided without a license.

The Electronic Communications Act provides that licenses for electronic communications network services, electronic communications services and broadcasting services can be issued as individual licenses or as class licenses. Individual licenses are required for electronic communications network services and commercial and public broadcasting services that are of provincial or national scope, for electronic communications services for voice telephony utilizing numbers from the national numbering plan, for any service where a state entity owns more than 25% of the share capital of the licensee, and for any service that ICASA finds to have significant impact on socio-economic development. ICASA may only accept and consider applications for individual electronic communications network service licenses following a policy direction issued by the Minister of Communications. The granting of individual licenses is subject to an extensive process of evaluation that includes public hearings. The granting of class licenses is subject to a simple process of registration. We expect that the new licensing framework will result in the market becoming more horizontally integrated and will substantially increase competition in our fixed-line business. In addition, the process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit.

Competition matters

The Electronic Communications Act replaces the concept of Major Operator status, which was developed by ICASA through regulations, with that of significant market power in a market or market segment. Factors in determining significant market power are, among others, dominance or control of essential facilities. The Electronic Communications Act empowers ICASA to impose pro-competitive conditions on operators found to have significant market power in such markets or market segments that have ineffective competition, which may affect the manner in which facilities are leased and interconnection is to be provided by such operators, and the charges thereof.

If we are found to have significant market power in any of the markets in which we operate, we may be required to provide interconnection and facilities to our competitors at or near the LRIC of those services or facilities, and our operating revenue and net profit could decline.

Where ICASA determines that a licensee has engaged or intends to engage in an act that is likely to substantially prevent or lessen competition, ICASA may direct the licensee to cease or refrain from engaging in such act and may impose penalties for failure to comply with such direction.

Interconnection

The Electronic Communications Act provides that any licensee, other than broadcasting service licensees, must, on request, interconnect with any other licensee, unless such request is unreasonable, and must enter into an interconnection agreement with the requesting party for this

purpose. Where the parties are unable to reach an agreement, the Electronic Communications Act confers on ICASA the power to intervene and propose, or impose, terms and conditions for the interconnection agreement, or refer the matter to the Complaints and Compliance Committee, to be established as provided in the proposed amendments to the ICASA Act described below, for resolution. ICASA must review any interconnection agreement to determine whether it is consistent with the regulations and, if the agreed terms are not consistent with the regulations, direct the parties to agree on new terms and conditions.

Any dispute arising under an interconnection agreement can be referred by a party to the Complaints and Compliance Committee for resolution, and any decision of the Complaints and Compliance Committee is effective and binding on the parties, unless an order of a court of competent jurisdiction is granted against the decision.

ICASA may exempt a licensee from the obligation to interconnect where such licensee has not been found to have significant market power in the relevant market. ICASA must prescribe regulations to facilitate the conclusion of interconnection agreements by stipulating interconnection agreement principles. ICASA may prescribe a framework of wholesale interconnection rates to be charged in circumstances where the existence of significant market power has been determined.

Facilities leasing

The Electronic Communications Act provides that an electronic communications network licensee must, on request, lease electronic communications facilities to any other licensee, unless such request is unreasonable, and must enter into a facilities leasing agreement with the requesting party for this purpose. Where the parties are unable to reach an agreement, the Electronic Communications Act confers on ICASA the power to intervene and propose, or impose, terms and conditions for the facilities leasing agreement, or refer the matter to the Complaints and Compliance Committee for resolution. ICASA must review any facilities leasing agreement to determine whether it is consistent with the regulations and, if the agreed terms are not consistent with the regulations, direct the parties to agree on new terms and conditions.

Any dispute arising under a facilities leasing agreement can be referred by a party to ICASA, and the Complaints and Compliance Committee must resolve the dispute and any decision of the Complaints and Compliance Committee is effective and binding on the parties, unless an order of a court of competent jurisdiction is granted against the decision.

ICASA may exempt a licensee from the obligation to lease communications facilities where such licensee has not been found to have significant market power in the relevant market. ICASA must prescribe regulations to facilitate the conclusion of facilities leasing agreements by stipulating facilities leasing agreement principles. ICASA may prescribe a framework of wholesale rates applicable to specified electronic communications facilities in circumstances where the existence of significant market power has been determined. As a result, Telkom’s local loop could be unbundled. The Minister of Communications has announced that she planned to issue policy directives with respect to the time period for the unbundling of Telkom’s local loop and the sharing of access to Telkom’s undersea cables and has formed a committee to evaluate the unbundling of Telkom’s local loop. Notwithstanding a finding of significant market power, ICASA may exempt, under certain circumstances, an electronic communications network licensee from the obligation to lease fiber loops and sub-loops serving residential premises. ICASA must prescribe a list of essential facilities, including local loops and sub-loops and associated electronic communications facilities, and electronic communications facilities connected to international electronic communications facilities such as submarine cables and satellite earth stations.

License conversion

All existing licenses are to remain valid until converted by ICASA in line with the new licensing framework, which must be done within 24 months from the commencement date of the Electronic Communications Act. As a result, Telkom's licenses will be converted to new licenses in accordance with the new licensing regime. Conversion is required to be on no less favorable terms than the original license. However, as part of the conversion process, ICASA may grant rights and impose obligations on the licensee, in order to ensure that the existing licenses comply with the Electronic Communications Act. The process of converting our licenses to the new licensing framework may be lengthy and complex and could result in the imposition of additional obligations and limitations in connection with the converted licenses, which could disrupt our business operations and decrease our net profit.

Existing Regulations

All existing regulations are to remain in force until repealed or amended by ICASA. However, many of the existing regulations may be required to be amended and many additional regulations may need to be made to fully implement the Electronic Communications Act. ICASA's capacity may be further strained by the workload that will be imposed on it by the Electronic Communications Act, which creates further uncertainties in the regulatory arena and the ability of ICASA to effectively fulfill its functions. We cannot predict the outcome or timing of any amendments or modifications to applicable regulations or the interpretation thereof, the release of new regulations or their impact on us.

ICASA Act Amendment Bill

A bill amending the ICASA Act, Act No. 13 of 2000, was passed by the Parliament of South Africa and signed by the President and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquires and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non–compliance with the Electronic Communications Act.

There are many linkages between the Electronic Communications Act and the proposed amendments to the ICASA Act.

Licenses

Fixed-line telephone services

Public switched telecommunications services

On November 15, 1996, we were deemed to be the holder of a license to provide public switched telecommunication services under the Telecommunications Act and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to provide public switched telecommunications services in South Africa for a minimum period of 25 years, which included our exclusivity period of five years that ended on May 7, 2002.

Under this license we are authorized to provide, among other things, the following:

- national long distance telecommunications services;
- international telecommunications services;

- local access telecommunications services;
- public pay telephone services;
- fixed-lines, infrastructure and facilities required to provide the above services;
- telecommunications facilities to be used by any person for the provision of value-added network services;
- telecommunications facilities comprising fixed-lines to be used by operators for the provision of mobile communications services and any other telecommunications services;
- telecommunications facilities to be used by any person for the provision of any private telecommunications network, with the exception of certain private telecommunications networks situated on a single piece of land or two or more contiguous pieces of land owned by the same person, or maintained by Transnet or Eskom as authorized under the Telecommunications Act;
- connection to our network of any other licensed telecommunications system or service both inside and outside of South Africa; and
- conveyance of signals to and from telecommunications systems and equipment connected to our network, together with any switching or other services incidental to such conveyance.

Additionally, we are entitled under the Telecommunications Act to manufacture, sell, supply, distribute and maintain certain telecommunication facilities and equipment, including customer premises equipment and software, provided that ICASA consents to the commercial marketing, distribution or sale of such facilities or equipment.

Furthermore, the 2001 amendment to the Telecommunications Act provides for fixed-mobile services to be deemed a new public switched telecommunications service that may be provided with a public switched telecommunications service license or an underserviced area license. A fixed-mobile service is a service that permits a customer of the licensee to access the public switched telecommunications network of the licensee and obtain telecommunications services from such licensee from either a fixed point or while in motion within the local exchange area, but does not permit or include call handover between cells. Our public switched telecommunications service license has not yet been amended to include fixed-mobile services.

The license fee payable by us under this license amounts to 0.1% of our annual revenues generated from the provision of the licensed public switched telecommunications services.

Our public switched telecommunications services license may be revoked by ICASA if we repeatedly fail to comply with an order made by ICASA pursuant to the Telecommunications Act and fail to correct the non-compliance within 90 days of being requested to comply, or if we are placed in final liquidation or put under a provisional or final judicial management order.

We are also obliged to publish our charges and the manner which we adopt for determining those charges in respect of the various telecommunications services provided by us. Provision is also made for the protection of customer confidentiality and other information that we receive from our customers in the course of providing telecommunications services to them. Bills to our customers must reflect the type of service, the units for which charges are made, and at a minimum, the starting time of each connection, the number called and the duration and number of units for each call. Our records must identify for customers the basis for the amount charged for the use of our services and we are required to retain such information to allow ICASA the ability to have an independent quality assurance check performed to ensure that the billing process complies with the aforesaid requirements.

Our license also requires us to establish efficient procedures, taking into account predominant regional languages and to provide assistance to customers with complaints during normal business hours. Our procedures for dealing with customer complaints must include a procedure for referring any disputes relating to such complaints to an affordable independent arbitration procedure instead of a court. Finally, we are required, in consultation with ICASA, to prepare and publish a code of practice that duly takes account of predominant regional languages, giving guidance to our customers in respect of any disputes with or complaints from such customers relating to the provision of telecommunications services.

ICASA has started a process to amend our PSTS license to bring it in line with the license issued to SNO-T, as provided for in the Telecommunications Act. As a result of this process we expect that quality of service targets will again be imposed on us with penalties if targets are not met. However, under our existing license, such a review and amendment can, in some instances, only be effected through a public comment process with our participation, and in other instances, only with our consent. We cannot, however, predict the outcome of such a contemplated review. Should we apply for our license to be amended to include the provision of fixed-mobile services, we expect that additional service obligations could be imposed on us. Fixed-mobile service is a service provided by the holder of a public switched telecommunications service license or an under-serviced area license that permits a customer of the licensee to access the public switched telecommunications network of the licensee and obtain telecommunications services from such license from either a fixed point or while in motion within the local exchange area, but does not permit call handover between cells.

Other licenses

On November 15, 1996, we were deemed to be the holder of a license to provide value-added network services under the Telecommunications Act and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to provide value-added network services on a non-exclusive basis for a period of 25 years.

Our value-added network service license may be revoked by ICASA if we repeatedly fail to comply with an order made by ICASA and fail to correct the non-compliance within 90 days, or if we are placed in final liquidation or under a provisional or final judicial management order.

On February 21, 1997, we were deemed to be the holder of a radio frequency spectrum license to provide telecommunication services and facilities, and on May 7, 1997, we were issued a written license by the Minister for Posts, Telecommunications and Broadcasting to use the relevant bands of radio frequency spectrum. We use the radio spectrum for the provision of fixed links within our network, both land based and satellite, and for wireless local loop applications. Where these bands were licensed to us on a shared or non-exclusive basis, ICASA is to ensure that any other licenses issued to other entities do not create harmful interference with our use of the radio frequency spectrum. Our use of the radio frequency spectrum is subject to our compliance with the relevant provisions of international telecommunications conventions, the radio regulations and the International Telecommunications Union radio regulations agreed to or adopted by South Africa. We are only authorized to use our assigned frequency bands for the provision of public switched telecommunication services.

Our radio frequency spectrum license may be revoked by ICASA if we repeatedly fail to comply with an order made by it and fail to correct the non-compliance within 90 days of being requested to comply, or if we are placed in final liquidation or under a provisional or final judicial management order. Additionally, our radio frequency license will terminate if our public switched telecommunication services license is terminated.

Under the Telecommunications Act each of Vodacom, MTN, Telkom and SNO-T are all entitled to apply for, and acquire, licenses for the use of 1800MHz radio frequency spectrum and radio frequency spectrum for the provision of third generation services. Cell C's existing license already includes the right to use radio frequency spectrum in the 1800 MHz band. Vodacom and MTN have obtained licenses for the use of 1800 MHz radio frequency spectrum and radio frequency spectrum for the provision of third generation services and Telkom has applied for such licenses.

Our Swiftnet subsidiary has been granted a telecommunications license and a radio frequency spectrum license providing for:

- Swiftnet to construct, maintain and operate a national wireless data network and to provide wireless data telecommunication services; and
- interconnection with our network.

Under our interconnection agreement with Swiftnet, we must charge Swiftnet those tariffs recommended by ICASA and approved by the Minister of Communications.

Swiftnet is currently in violation of its license that requires it to have a 30% black economic empowerment partner. ICASA has required Swiftnet to remedy the breach of its license, which expires on August 24, 2006. Swiftnet has submitted a proposal and application in June 2006 to renew the license. If not remedied, there is a risk of Swiftnet's license being revoked or not renewed. Telkom, in consultation with ICASA, is in the process of openly tendering to obtain a suitable black economic enpowerment partner. ICASA is being kept informed of progress. See "–Other Regulatory Issues" below.

Mobile cellular telephone services

On September 30, 1992, a multiparty implementation agreement was concluded between us, Vodacom, MTN, the Postmaster-General and the South African Government dealing with the licensing of Vodacom and MTN. Vodacom was issued with a mobile cellular telecommunications license in South Africa in 1993 for a validity period of 15 years. This mobile cellular telecommunications service license was confirmed and reissued in August 2002 pursuant to the Telecommunications Act. Vodacom's license is automatically renewable on the same terms and conditions should no notice of termination be received five years prior to the expiration of the initial license term. Vodacom's license was thus automatically renewed until May 30, 2024.

On July 1, 1997, Vodacom was deemed to be the holder of a license to provide mobile cellular telecommunications services in accordance with the Telecommunications Act, subject to the terms and conditions of the written mobile cellular telecommunications license issued by the Postmaster-General and the multiparty implementation agreement, and on August 19, 2002, Vodacom was issued a written mobile cellular telecommunications service license by the Minister of Communications and ICASA, pursuant to the Telecommunications Act, incorporating the terms and conditions of the original license and agreement, subject to certain legislatively mandated changes. Under this license, Vodacom is authorized to construct, maintain and use its public land mobile communications network for the provision of mobile cellular telecommunications services, and to interconnect with our public switched telecommunications network and the public land mobile communications networks of other licensed mobile cellular telecommunications service providers. An initial license fee of R100,000,000 was payable by Vodacom and an ongoing license fee of 5% of Vodacom's audited net operational income generated from the provision of the licensed services is payable by Vodacom quarterly in arrears.

Vodacom's mobile cellular telecommunications license may be revoked by ICASA, with the approval of the Minister of Communications, if Vodacom is placed in liquidation or under judicial management, or if there is a change in the direct or indirect ownership of 25% of the issued voting share capital of Vodacom in any one transfer or a change in the ownership of any of the issued voting share capital of Vodacom that results in a change to the composition of one-quarter of Vodacom's

board of directors, in either case without ICASA's prior written approval, Vodacom takes steps to deregister itself or is deregistered, or Vodacom fails to pay the required license fee after due demand by ICASA.

Vodacom's use of its public land mobile communications network is authorized for the provision of a GSM based national mobile cellular telecommunications service and the connection of fixed and mobile terminal equipment using GSM cellular telephony technology. For the duration of this license, Vodacom's network must conform to the GSM specification standards and recommendations of the International Telecommunications Union as adopted by South Africa, as well as with the GSM specifications set by the European Technical Standards Institute, or ETSI.

Vodacom's mobile cellular telecommunications license requires Vodacom to provide facilities to enable a caller, free of charge, to communicate with an emergency organization as swiftly as practicable and sets out certain customer service standards with which Vodacom is required to comply. This license also requires Vodacom to use reasonable endeavors to ensure that certain information is kept confidential. Vodacom is obliged to provide directory services and to liaise with other licensees in that regard. Vodacom and its service providers are not entitled to show any undue preference to any person or class of person and Vodacom must develop, publish and enforce guidelines for use by its personnel when handling inquiries and complaints from customers to whom it supplies telecommunications facilities. These guidelines must be included in its contracts with service providers and must be published and available to customers. Vodacom's license prescribes that the guidelines must address the following areas of the provision of customer services:

- procedures for handling customer complaints;
- the time frame for handling customer complaints through such procedures;
- further recourse available to a customer who is dissatisfied with Vodacom's complaint handling procedures;
- procedures adopted by Vodacom to check the accuracy of a customer's telephone account;
- procedures to be adopted by Vodacom to assist customers in disaster situations; and
- availability to customers of quality of service information relating to Vodacom's network services.

Vodacom was also issued a radio frequency spectrum license simultaneously with its mobile cellular telecommunications license permitting it to use the 890.2/935.2MHz to 900.0/945.0MHz radio frequency spectrum for purposes of providing mobile cellular telecommunications services, valid for the duration of Vodacom's mobile telecommunications license of fifteen years. Vodacom was also granted a license, effective July 1, 1995, for the use of an additional 1-2 MHz of GSM900MHz radio frequency spectrum under its mobile cellular telecommunications license. Pursuant to the Telecommunications Act, the three mobile cellular licensees were given the right, upon application, to be granted licenses to use 1800MHz frequency spectrum on payment of fees as determined by the Minister of Communications. Vodacom was awarded a permanent 1800MHz license on October 29, 2004 and a 3G spectrum license on November 30, 2004. The license fee for the 1800MHz and 3G spectrum license is a R5 million access fee each per annum and R100,000 per MHz pair. Vodacom has to date been allocated a total of 34 million numbers, including the full 072, 076, 082, as well as 0791, 2, 3 and 4 number ranges.

Vodacom was issued a license to provide value added network services on October 20, 1998. On May 20, 2005, ICASA published new regulations for value added network service providers. This set of regulations repeals the previous set of regulations under which Vodacom had to re-apply for its VANS license on February 27, 2004. In terms of the new regulations, Vodacom shall be deemed to have applied in accordance with the regulations. On August 26, 2005, ICASA re-issued Vodacom's value added network service license (VLS40/0034). Vodacom is obliged to keep and

maintain statistics on complaints made to it by its customers. The statistics must be provided to ICASA at least once every six months and ICASA may, after consultation with Vodacom, publish these statistics.

Ownership Restrictions

Pursuant to the ownership regulations issued under the Telecommunications Act, 103 of 1996, Telkom is a public switched telecommunications services licensee operating in a "concentrated market," which is a market where there are fewer than five licensees. Pursuant to these regulations, no person who holds a direct or indirect 5% ownership interest in Telkom, other than the Government of South Africa and passive institutional investors who do not participate in our management, is entitled to hold a 5% or greater ownership interest in any other licensed operator providing the same category of telecommunications services as Telkom in that concentrated market, such as the second national operator. The same prohibition applies in relation to a person holding such an ownership interest in both Vodacom and another mobile cellular telecommunications service licensee. In addition, licensees such as Telkom and Vodacom are required to maintain accurate and detailed records indicating the name, address, telephone number, e-mail address and other contact details of all persons holding a direct or indirect ownership interest of 5% or more in the licensee, the number of shares or other ownership interests owned of record by each such person, the identity of each such person entitled to vote, and must annually file such information with ICASA. ICASA is entitled, at the request of the licensee, to waive the licensee's obligations with respect to maintaining certain of the information where the licensee's issued share capital is listed on the JSE or any other internationally recognized securities exchange and the information is not kept in the ordinary course with respect to such listed issued share capital and is not otherwise required by such exchanges. Under the same regulations, licensees such as Telkom and Vodacom are required to obtain the prior written approval of ICASA, in an application that is signed by the licensee, the transferor and the transferee, for any transfer of a control interest in the licensee. A control interest in a licensee includes a direct or indirect:

- beneficial ownership of more than 25% of the issued share capital of that licensee;
- entitlement to vote a majority of the votes that may be cast at a general meeting of that licensee;
- ability to appoint or veto the appointment of a majority of the directors of that licensee;
- holding company of that licensee; or
- ability to direct or cause the direction of the management and policies of that licensee in a way similar to the foregoing.

The criterion to be used by ICASA in considering the application is whether the licensee will be able to satisfy its obligations under its licenses and comply with the Telecommunications Act, 103 of 1996, and the regulations thereunder after the transfer concerned. Any transfer in violation of these regulations is void.

Other Regulatory Issues

We are subject to the provisions of the Competition Act, 89 of 1998, which, together with the Telecommunications Act regulates uncompetitive behavior in the communications industry in South Africa. The Competition Commission and ICASA have come to an arrangement regarding jurisdictional issues existing between the two regulators. Under the provision of these two Acts, we may not act uncompetitively or unfairly discriminate against any person.

South Africa is a member of the World Trade Organization and is a signatory to the Basic Agreement on Telecommunications. The commitments made by South Africa are embodied in the

provisions of the Telecommunications Act in respect of the liberalization of the South African telecommunications industry. The Electronic Communications Act consistently supports these commitments.

RICA is a South African law that regulates the authorization for and actual lawful interception of communications. The Act came into effect on September 30, 2005, with the exception of certain sections requiring the collection of customer details and identity verification prior to providing mobile cellular telecommunications services. The compliance date for these sections has not been determined and will come into effect by presidential proclamation. RICA obligates service providers to obtain and store customer details, including names, identity numbers, residential and business or postal addresses and requires verification of customers' details with reference to a certified copy of a customer's identity document and his or her actual identity document. Telkom has not completed the implementation of all of these requirements and Vodacom may not be able to implement these requirements by the time period in which it is required to implement them. Furthermore, the implementation of RICA is expected to require significant costs resulting from its paper verification and storage requirements and negatively impact the ability of Telkom and Vodacom to register customers due to its burdensome registration process, which may not be practical and may require the disconnection of customers for whom such information is unavailable. As a result, Telkom's and Vodacom's business operations could be disrupted and their net profit could decline and they may be liable for penalties to the extent they are not able to comply with RICA's requirements.

In addition, commencing in June 2006, all licensees, including Telkom and Vodacom were required to install equipment and implement procedures to allow lawful interception by law enforcement agencies in South Africa, including the interception of communications and the provisioning of call-related (billing) information. Telkom is currently in consultation with the Office of the Interception Centre and the Department of Communication to adopt a phased approach for compliance in the first quarter of the 2007 calendar year. To the extent that we are unable to comply with all the requirements of RICA or are unable to substantially recover these costs of compliance, our business operations could be disrupted and our net profit could decline and we may be liable for penalties.

In certain South African judgments, we have been regarded as an organ of state. In addition, some legislation, notably the South African Promotion of Administrative Justice Act, 3 of 2000, have provisions that identify us as rendering a public service. As a result, some decisions that would otherwise be normal business decisions in other listed companies need to go through a consultative process with the Government before we can make them.

Our subsidiary Swiftnet is required, in terms of its license, to have at least 30% of its shares held by black economic empowerment individuals or entities. Swiftnet is currently in breach of its license requirement since Telkom owns 100% of Swiftnet. ICASA has required Swiftnet to remedy the breach of its license, which expires on August 24, 2006. Swifnet has submitted a proposal and application in June 2006 to renew the license. If not remedied, there is a risk of Swiftnet's license being revoked or not renewed. Telkom, in consultation with ICASA, is in the process of openly tendering to obtain a suitable black economic empowerment partner. ICASA is being kept informed of progress.

The Broad-Based Black Economic Empowerment Act, No. 53 of 2003, or the B-BBEE Act, aims at establishing a legislative framework for the promotion of black economic empowerment. Among other things, it empowers the Minister of Trade and Industry to issue codes of good practice and to publish sectorial transformation charters for that purpose. The codes of good practice aim to establish a balanced scorecard on empowerment, which deals with equity ownership, management and control of enterprises by black people, and employment, procurement, skills development, enterprise development and other developmental intervention aimed at the empowerment of black people.
The Department of Trade and Industry has finalized a number of codes of good practice, and

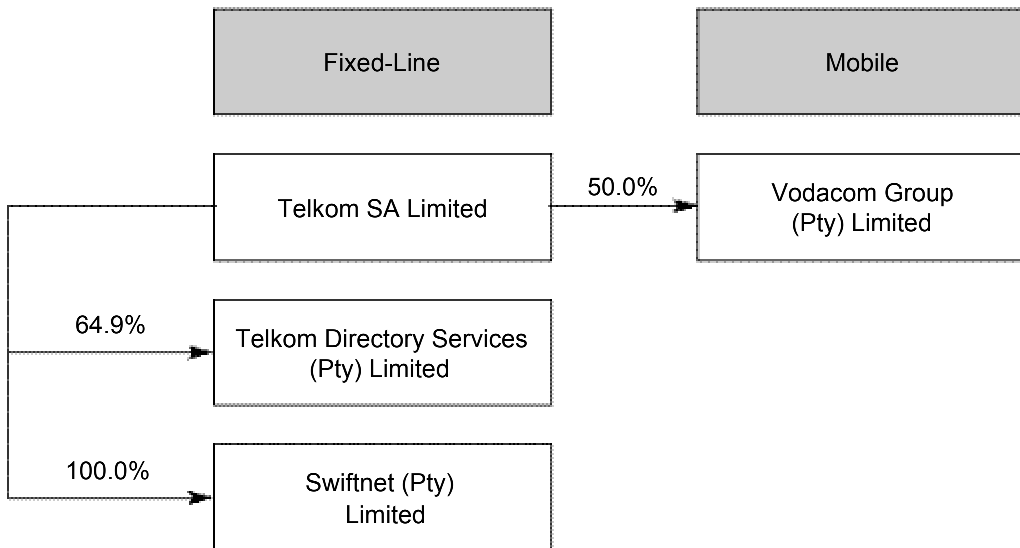
published others for public comment. Once all the codes are finalized, they will be gazetted in terms of the B-BBEE Act, and will become mandatory on all organs of state, and will affect all enterprises that, directly or indirectly, conduct business with organs of state, in that their empowerment rating in terms of the codes, will determine their ability to conduct such business.

Sectorial transformation charters have a similar purpose to the codes of good practice, but are voluntarily applied by enterprises in a sector, and not mandatory. However, the B-BBEE Act makes provision for transformation charters to be gazetted, under certain circumstances, as a code of good practice, applicable to the enterprises in the relevant sector and those conducting business with them. The process to develop the Information Communication and Technology, or ICT, black economic empowerment charter commenced on September 16, 2003. The ICT Charter seeks to establish a framework for the promotion of transformation in the ICT sector through the establishment of a balanced scorecard on empowerment. The scoring of the balanced scorecard will ultimately determine the black economic empowerment status of a company intending to engage Government when applying for a license in a regulated economic activity, entering into a public-private partnership, or engaging in any economic activity in South Africa. As such this process is of vital importance to Telkom and Vodacom. Telkom and Vodacom have been actively involved in the development of the BEE Charter for the ICT sector. A final draft of the ICT charter has received Cabinet approval, but will not be published as a voluntary charter and instead will be gazetted as a code, which can only be done once the codes of good practice have been gazetted.

The codes of good practice require business to make use of suppliers complying with the black economic empowerment requirements. If we are not able to meet the minimum requirements of the codes of good practice or the ICT charter, whichever may be applicable, some of our business customers may be required or elect to obtain all or some of their telecommunications services from our competitors who may fulfill such requirements.

ORGANIZATIONAL STRUCTURE

Our group operational structure is as follows:



Our business consists of two segments:

- a fixed-line segment; and
- a mobile segment.

Our fixed-line segment consists of our fixed-line business, which provides fixed-line access and data communications services through Telkom; directory services through our 64.9% owned Telkom Directory Services subsidiary; and wireless data services through our wholly owned Swiftnet subsidiary. Our mobile segment consists of our 50% interest in Vodacom, our joint venture.

PROPERTY, PLANT AND EQUIPMENT

Fixed-line

Our principal executive offices are located at Telkom Towers North, 152 Proes Street, Pretoria 0002, Republic of South Africa and comprised approximately 27,000 square meters of office space as of March 31, 2006. In addition, our information technology center comprised approximately 22,000 square meters and our network operations center comprised approximately 24,000 square meters as of March 31, 2006. Our executive offices are leased from the Telkom Retirement Fund under a lease agreement which will expire on January 31, 2019. The total area of all our properties as of March 31, 2006 comprised approximately 2.5 million square meters consisting of approximately 1.5 million square meters of owned, approximately 603,000 square meters of leased and approximately 403,000 square meters of other type properties. As of March 31, 2006, we leased approximately 171,000 square meters of office space pursuant to lease agreements. Except as stated to the contrary below, our leases expire at various times ranging from one month to five years.

Our properties primarily consisted of 2,459 electronic telephone exchanges, 49 microwave transmission towers, three satellite stations, 131 customer service branches, including Telkom Direct, shops, 263 customer service centers, three information technology centers and one network management center as of March 31, 2006.

Details of the principal immovable property leased and owned by our fixed-line business as of March 31, 2006 are as follows:

Type of Property	Leased or Owned	Lessor	Lessee	Location	Current Monthly Rental	Expiration Date
Head office	Leased	Telkom Retirement Fund	Telkom	152 Proes Street, Pretoria, South Africa	R5,001,366	Jan 31, 2019
Office	Leased	Bridgeport/Lanor Joint Venture	Telkom	195 Nelson Mandela Drive, Bloemfontein, South Africa	R1,275,387	Jun 1, 2009
Information technology center	Leased	Telkom Retirement Fund	Telkom	21 Teddington Street, Tygerberg, Bellville, South Africa	R1,077,572	Jan 31, 2019
Equipment related	Leased	Telkom Retirement Fund	Telkom	178 Vermeulen Street, Pretoria, South Africa	R433,560	Jan 31, 2019
Network operations center	Owned	n/a	n/a	55 Oak Avenue, Highveld, Centurion, South Africa	n/a	n/a
Information Technology, Technopark	Owned	n/a	n/a	91 Oak Avenue Highveld, Centurion, South Africa	n/a	n/a
National Business Solutions Center	Owned	n/a	n/a	61 Oak Avenue, Highveld, Centurion, South Africa	n/a	n/a
Hillbrow microwave tower	Owned	n/a	n/a	Claim Street, Hillbrow, Johannesburg, South Africa	n/a	n/a
Pretoria microwave tower	Owned	n/a	n/a	Devenish Street, Groenkloof, Pretoria, South Africa	n/a	n/a
Hartebeesthoek satellite station	Owned	n/a	n/a	Old Krugersdrop Road, On The Farm Hartebeesthoek, South Africa	n/a	n/a
Electronic telephone exchange	Owned	n/a	n/a	Sivewright Street, New Doornfontein, Johannesburg, South Africa	n/a	n/a

Our leased and owned property facilities are managed pursuant to a management agreement with TFMC, a company incorporated in South Africa, of Meersig Building, 48 West Avenue, Centurion. The consideration paid to TFMC for management services in the year ended March 31, 2006 was R154 million. The management agreement terminates on March 31, 2011.

Mobile Communications

Vodacom's principal executive offices are located at Vodacom Corporate Park, 082 Vodacom Boulevard, Vodavalley, Midrand, 1685, Republic of South Africa. Vodacom's South African properties primarily consisted of 6,401 base transceiver stations, 280 base station controllers, 58 mobile switching centers, including VLRs and gateways, a network management center and customer service centers as of March 31, 2006. The total area of all of Vodacom's properties, excluding its network and retail outlets, was approximately 229,100 square meters as of March 31, 2006, consisting of approximately 195,800 square meters of owned properties and approximately 33,300 square meters of leased properties. Vodacom's leases expire at various times on terms up to 15 years.

Vodacom leases transmission lines from Telkom under a lease agreement for the provision of its backbone infrastructure.

Item 5. Operating and Financial Review and Prospects

OPERATING RESULTS

You should read the following discussion together with the consolidated financial statements of the Telkom Group and Vodacom and the notes thereto included elsewhere in this annual report. The Telkom Group and Vodacom have prepared their financial statements in accordance with IFRS, which differs in certain respects from US GAAP. For a description of the principal differences between IFRS and US GAAP relevant to the financial statements of the Telkom Group and Vodacom and a reconciliation to US GAAP of net income and shareholders' equity, see note 44 of the notes to the audited consolidated financial statements of the Telkom Group as of and for each of the three years in the period ended March 31, 2006 and note 45 of the notes to the audited consolidated financial statements of Vodacom as of and for each of the three years in the period ended March 31, 2006.

Change in accounting policy and restatements

The Telkom Group's consolidated financial information discussed below reflects the following changes to the basis of preparation:

- the early adoption of revised IAS19, which is applicable for the financial year beginning on or after January 1, 2006;
- the adoption of revised and new IAS16, IAS17, IAS24, IAS40, IFRS4 and IFRIC1, which are applicable for financial years beginning on or after January 1, 2005;
- a voluntary change in accounting policy to recognize fixed-line installation and activation revenues and related costs systematically over the expected duration of customer relationships in line with other global communications companies, as opposed to the recognition of such revenues and related costs when the installation and activation of customers occurs, the method previously used in the Telkom Group's consolidated financial statements for the 2005 and 2004 financial years (both methods are permitted under IAS18); and
- restatements for changes to the previous accounting methods for certain lease payments and receipts under operating leases, and accounting disclosures for investment properties, information technology software items and financial assets and liabilities previously reported in the Telkom Group's consolidated financial statements for the 2005 and 2004 financial years.

The restatements relate to the following areas:

- the recognition of expenses and income related to lease payments and receipts under operating leases on a straight-line basis over the lease terms to ensure that the income statement expenses and income are more representative of the time pattern of the operating lease costs and benefits to the Telkom Group, as opposed to the previous recognition of the expenses and income based on the amount paid or payable and received or receivable for each period;
- the recharacterization of Vodacom's Vodaworld property from investment properties to property, plant and equipment since the primary purpose of the property is to service and connect Vodacom customers and the property therefore does not meet the criteria for investment properties under IAS40;
- the reclassification of certain information technology software items from property, plant and equipment to intangible assets and the related depreciation from depreciation to amortization since the information technology software items are not considered an integral part of the related hardware; and

- the reclassification of certain other financial assets and liabilities, previously classified as non-current, to current assets and current liabilities because they represent derivatives classified as held for trading.

For a more detailed description of these items, please see note 2 of the notes to the audited consolidated financial statements of the Telkom Group and note 23 of the notes to the audited consolidated financial statements of Vodacom included in this annual report.

The Telkom Group has not amended, and does not intend to amend, its previously filed Annual Reports on Form 20-F for the years affected by the change in accounting policy and restatements that ended prior to the year ended March 31, 2006. For this reason, those prior Annual Reports and the consolidated financial statements and applicable notes thereto, auditors' reports and related financial information contained in such reports should no longer be relied upon.

Executive summary of the Telkom Group results for the years ended March 31, 2006 and March 31, 2005

Operating revenue increased by 10.3% to R47,625 million in the 2006 financial year and 6.4% to R43,160 million in the 2005 financial year. Operating profit increased by 30.3% to R14,677 million in the 2006 financial year and 20.6% to R11,261 million in the 2005 financial year.

Operating profit increased due to a 27.7% and a 19.3% increase in operating profit in our fixed-line segment and a 36.9% and a 24.0% increase in operating profit in our mobile segment in the 2006 and 2005 financial years, respectively. The increases recorded in fixed-line operating profit were due to higher revenue and a decline in operating expenses, while mobile operating profit increases were primarily due to increases in operating revenue as a result of customer growth, partially offset by increases in operating expenses.

Profit for the year attributable to equity holders of Telkom increased in the 2006 and 2005 financial years due to the increases in operating profit in our fixed-line and mobile segments, lower finance charges and, to a lesser extent, increases in investment income, partially offset by increases in taxes. Finance charges decreased primarily due to lower interest expenses resulting from lower interest bearing debt levels and net fair value and exchange gains on financial instruments in the 2006 financial year and lower exchange losses in the 2005 financial year. Investment income increased primarily due to increased interest received associated with higher average balances in investments and bank accounts.

Operating cash flows adequately covered capital expenditure requirements and allowed for further debt to be repaid in the 2006 financial year. It also enabled the Telkom Group to maintain dividend payments and repurchase shares, thus distributing controllable cash to shareholders.

Telkom Group capital expenditures increased to R7,506 million in the 2006 financial year from R5,851 million in the 2005 financial year and R5,368 million in the 2004 financial year. Consolidated capital expenditures in property, plant and equipment for the 2007 financial year are budgeted to be approximately R10,265 million, of which R6,519 million is budgeted to be spent in the fixed-line segment and the remaining R3,746 million, representing a 50% share of Vodacom's total budgeted capital expenditure of R7,492 million, is budgeted to be spent in the mobile segment.

Overview of our Business

We are the largest provider of public switched telecommunications services in South Africa, providing fixed-line voice and data services. In addition, we participate in the South African mobile communications market through our 50% interest in Vodacom, the largest mobile communications network operator in South Africa based on total estimated customers. We also provide directory services and wireless data services through our subsidiaries, Telkom Directory Services (Pty) Limited and Swiftnet (Pty) Limited, respectively.

We offer business, residential and payphone customers a wide range of services and products, including:

- *fixed-line voice services*, including subscriptions and connections services, local, long distance, fixed-to-mobile and international voice services, interconnection and hubbing communications services, international voice over internet protocol services, subscription based value added voice services and customer premises equipment rentals and sales;
- *fixed-line data services*, including domestic and international data transmission services, such as point to point leased lines, ADSL services and packet based services, managed data networking services, and internet access and related information technology services;
- *directory and wireless data services* through our Telkom Directory Services and Swiftnet subsidiaries, respectively; and
- *mobile communications services*, including voice services, data services and value added services and handset sales through Vodacom.

Acceleration of our fixed-line strategic focus

Our vision is to be a leading customer and employee centered ICT solutions service provider. We are focused on balancing the needs of all stakeholders while seeking long term sustainable and profitable growth. Our commitment to the socio-economic transformation of South Africa underpins this strategy.

In seeking to sustain the creation of value in response to developments in our dynamic market environment, our management has implemented certain shifts in our strategic emphasis. We are increasing our focus on customers and employees, while continuing to balance the needs of all stakeholders. We intend to focus on the following primary imperatives to support growth:

- Enhancing customer satisfaction through customer centricity;
- Retaining revenue and generating growth;
- Evolving our fixed-line network to a next generation network in order to support profitable growth through prudent cost management;
- Engaging Telkom's employees;
- Repositioning Telkom stakeholder management to create healthy relationships with all stakeholders; and
- Capitalizing on the growing mobile communications market in South Africa and other African markets through Vodacom.

Principal factors that affect our Results of Operations

Liberalization of the South African telecommunications market and increasing competition

Telkom is currently the only provider of public switched telecommunications services in South Africa. In September 2004, the South African Minister of Communications granted an additional license to provide public switched telecommunications services to a second national operator, SNO-T, that is 30% owned by Transtel and Esitel, which are beneficially owned by the South African Government, and other strategic equity investors, including 26% beneficially owned by TATA Africa Holdings (Pty) Limited, a member of the TATA Group, a large Indian conglomerate with information

and communications operations. ICASA issued this license on December 9, 2005, however, SNO-T is not expected to commence business activities until the second half of the 2006 calendar year. A process has also commenced to issue additional licenses to small business operators to provide telecommunications services in underserviced areas with a teledensity of less than 5%. The Minister of Communications has identified 27 of these underserviced areas. ICASA has issued licenses to successful bidders in seven of them and has issued invitations to apply for licenses in the remaining 20. It is expected that further licenses will be issued in the 2006 calendar year.

Our fixed-line business has faced competition for a number of years from mobile communications network operators, including Vodacom, and with service providers in those areas that are fully liberalized, such as the provision of value added network services. The current South African mobile communications market consists of three mobile communications network operators, Vodacom, MTN and Cell C. Cell C recently announced its intention to form a joint venture with the Virgin Group, which we expect will further increase competition. We also compete with other service providers who use least cost routing technology that enables fixed-to-mobile calls from corporate private branch exchanges to bypass our network by being transferred directly to mobile networks. In recent periods, our fixed-line business has experienced significant customer migration from our fixed-line services to mobile services, as well as substitution of calls placed using mobile services rather than our fixed-line service.

In addition, our data services have faced increased competition from Sentech, which owns and operates satellite transmission systems and in August 2003 launched a packaged, always-on, bi-directional broadband service via satellite that allows users anywhere in South Africa to get connected, regardless of whether landlines are available. In January 2004, Sentech also launched a competing wireless high-speed internet access service offering. Similarly, Vodacom’s and MTN’s 3G networks now also enables customers to browse the internet on a high speed platform, which provides increased competition for our data services.

We also face increased competition from mobile operators, value added network operators and private network operators as a result of determinations by the South African Minister of Communications in September 2004 and we expect that the new licensing framework to be implemented in connection with the Electronic Communications Act will result in the market becoming more horizontally integrated with a number of separate licenses being issued for electronic communications network services, electronic communications services, broadcasting services and the radio frequency spectrum and will substantially increase competition in our fixed-line business. We expect that the introduction of number portability and carrier pre-selection could further enhance competition and increase our churn rates.

As competition intensifies, the main challenges our fixed-line business faces are continuing to improve customer loyalty through imposed services and maintaining our leadership in the South African communications market. As a result of increasing competition, we anticipate a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline. Increased future competition may also result in a reduction in Vodacom’s overall average tariffs, loss of market share and an increase in its customer acquisition and retention costs. At the same time, we expect competition to stimulate overall market demand for communications services. See Item 3. “Key Information–Risk Factors–Risks Related to our Business–Increased competition in the South African telecommunications market may result in a reduction in overall average tariffs and market share and an increase in costs in our fixed-line business, which could cause our growth rates, operating revenue and net profit to decline and our churn rate to continue” and Item 4. “Information on the Company–Regulation and License Requirements”.

South African fixed-line communications market

While South Africa features a highly developed financial and legal infrastructure at the core of its economy, it also suffers from high levels of unemployment and income disparity. With respect to the economically disadvantaged communities of the population, communications providers must compete with other basic necessities for customers' limited resources. In a number of areas of the country and for particular communities, mobile services are the preferred alternative to fixed-line services, primarily due to mobility. Although the fixed-line penetration rate in South Africa was only 10.0% as of March 31, 2006, due to the diverse rural geography and demographic factors in South Africa, we do not expect fixed-line penetration rates to increase significantly in the near term. In the 2006 and 2005 financial years, our total fixed access lines decreased primarily due to a decrease in the number of residential postpaid PSTN lines, partially offset by an increase in ISDN channels, business postpaid PSTN lines and, in the 2005 financial year, prepaid PSTN lines. Postpaid residential PSTN lines were adversely impacted by customer migration to mobile and higher bandwidth products such as ADSL and, in the 2005 financial year, our prepaid PSTN service, and lower connections, partially offset by lower disconnections in the 2005 financial year. Similarly, traffic declined in both the 2006 and 2005 financial years, being adversely affected by the increasing substitution of calls placed using mobile services rather than our fixed line services and dial up internet traffic being substituted by our ADSL service, as well as the decrease in the number of residential postpaid PSTN lines and increased competition in our payphone business. During the same period, ISDN channels and ADSL services have increased, driven by increased demand for higher bandwidth and functionality. In light of these market conditions, we will seek to maintain existing customers in the face of increasing competition and increase sales of data products while utilizing existing capacity, largely through increased sales of our prepaid and bundled products.

South African mobile communications market

South Africa has experienced significant growth in the number of mobile users since GSM mobile services were launched in the country in 1994. The penetration rate for mobile users increased from an estimated 2.4% at March 31, 1997 to an estimated 71% at March 31, 2006. As a result, Vodacom's South African revenue increased 17.3% and 24.1% in the 2005 and 2006 financial years, respectively. While we believe the mobile penetration rate will continue to increase, we do not expect that it will continue to grow at the same high rates that it has experienced in the recent past. Consequently, Vodacom is placing increased focus on customer retention and maintaining its market leadership by providing innovative value added services and data products and superior customer service in addition to its previous focus on customer acquisition, as well as selective growth in other African countries. In furtherance of this strategy, in the 2005 financial year, Vodacom signed an alliance with its shareholder, Vodafone, which gives Vodacom access to Vodafone's branded products and services, global research and development and access to Vodafone's marketing and buying powers. In addition, Vodacom launched the first commercial 3G network in South Africa in December 2004. Vodacom also launched Vodafone Mobile Connect Cards, 3G/GPRS/HSDPA datacards providing fast, secure access to corporate networks from computers, Vodafone live!, with global and local content, picture and video messaging and downloads, Mobile TV and BlackBerry®. In addition, Vodacom recently launched 3G with HSDPA, giving its customers access to global high speed broadband communications.

A large part of the growth in mobile services was due to the success of prepaid services. Approximately 87.5% of Vodacom's South African mobile customers were prepaid customers at March 31, 2006 and 92.1% of all gross connections were prepaid customers in the 2006 financial

year. Vodacom expects the number of prepaid mobile users to continue to grow at a greater rate than contract mobile users. The increasing number of prepaid users, who tend to have lower average usage, and the lower overall usage as the lower end of the market is penetrated have resulted in decreasing overall average revenue per customer. As a result, total South African ARPU decreased to R139 per month in the 2006 financial year from R163 per month in the 2005 financial year and R177 per month in the 2004 financial year. South African contract ARPU decreased to R572 per month in the 2006 financial year from R624 per month in the 2005 financial year and R634 per month in the 2004 financial year. South African prepaid ARPU decreased to R69 per month in the 2006 financial year from R78 per month in the 2005 and R90 per month in the 2004 financial year. In the 2006 and 2005 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts.

Tariffs

We made significant progress in rebalancing our fixed-line tariffs. Telkom's tariff rebalancing program was historically aimed at better aligning its fixed-line traffic charges with underlying costs and international norms. As a result of its efforts, the ratio of tariffs for long distance calls to all destinations over 200 km compared to tariffs for local calls declined from 13.2:1 as of March 31, 1997 to 2.7:1 as of March 31, 2002. In the future, Telkom expects that its tariff rebalancing will focus more on the relationship between the actual costs and tariffs of subscriptions and connections and traffic in order to more accurately reflect underlying costs.

Regulations made under the Telecommunications Act impose a price cap on a basket of Telkom's services and a sub-basket of those services provided to residential customers, including leased lines up to and including lines of 2 Mb/s of capacity and the rental and installation of business exchange lines. Approximately 80% of Telkom's operating revenue in the year ended March 31, 2005 was included in this basket, compared to approximately 66% of Telkom's operating revenue in the year ended March 31, 2006. The reason for the decrease was due to a change in methodology of the amount included in the basket for purposes of our filing with ICASA in the 2006 financial year to exclude the mobile termination fees for fixed-to-mobile calls. Our tariffs for these services are filed with ICASA for approval. Revenue generated from services for which we had exclusivity may not be used to subsidize competitive services. Effective from August 1, 2005 through July 31, 2008, the annual permitted increase in revenues from both the whole basket and the residential sub-basket was lowered from 1.5% to 3.5% below inflation and ADSL products and services have been added to the basket. In addition, the price of no individual service within the residential sub-basket can be increased by more than 5% above inflation except where specific approval has been received from ICASA. Draft regulations have also been published for comment on the pricing and provision of ADSL services, which would, among other things, prohibit Telkom from charging a monthly rental for providing ADSL service and limit Telkom to charging only an installation fee for such service.

ICASA approved a 2.2% increase in the overall tariffs for services in the basket effective January 1, 2004, a 0.2% increase in the tariff for the services in the basket effective January 1, 2005 and a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005. In line with Telkom's strategy of delivering excellent service to customers at competitive prices, on June 5, 2006 Telkom announced average price reductions on its regulated basket of products and services of 2.1%, effective August 1, 2006. As a result, from August 1, 2006, the following price changes will be effective:

- ADSL rental 24% average decrease
- Local call charges No change
- Long distance call charges 10% decrease
- International call charges 10% average decrease
- Data products 9% average decrease
- Subscription: analog line rental 8% average increase

See Item 3. “Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–Our tariffs are subject to approval by the regulatory authorities, which may limit our flexibility in pricing and could reduce our net profit. Vodacom’s revenue and net profit could decline if wholesale price controls are imposed on it.” and Item 4. “Information on the Company–Business Overview–Fixed-line Communications–Fees and Tariffs–Tariff Rebalancing” and Item 4. “Information on the Company–Regulation and License Requirements.”

Vodacom’s and Telkom’s increasing interconnection payments

Vodacom and Telkom have experienced a significant change in the traffic mix as mobile customers have increased relative to fixed-line customers. This resulted in an increasing percentage of calls from Vodacom’s network terminating on other mobile networks rather than our fixed-line network. Vodacom’s interconnection payments have increased and its margins have decreased because the cost of terminating calls on other mobile networks is higher than the cost of terminating calls on Telkom’s fixed-line network. As a result, Vodacom’s South African net interconnect revenue has been declining in recent years. Similarly, Telkom has incurred increased payments to other operators as a result of the growth in interconnection traffic for fixed-line calls terminating on mobile networks. If mobile customers continue to increase and there is little or no growth in fixed-line customers, this trend could continue and Vodacom’s and Telkom’s margins and net profit could decline.

Vodacom’s acquisitions

In recent years, Vodacom has purchased a number of the previously independent service providers and consolidated its sales and distribution operations into Vodacom Services Provider Company. On March 1, 2004, Vodacom purchased 51% of Smartphone, acquiring an additional 2.5 million prepaid customers. On April 16, 2004, Smartphone, Vodacom’s 51% owned subsidiary, purchased an 85.75% equity stake in Smartcom for R77.2 million, acquiring an additional 40,000 contract customers. On February 1, 2005, Vodacom acquired the contract customer base, dealer agreements and five employees of Tiscali for R40.1 million. The net goodwill arising on this business combination amounted to R9.8 million. As of March 31, 2006, 97.4% of Vodacom’s total customer base, 83.5% of its contract customer base and 99.3% of its prepaid customer base in South Africa was managed by exclusive service providers or controlled directly by Vodacom.

Vodacom acquired a 51% stake in Cointel for approximately R84.3 million on August 1, 2005. Cointel’s core business is providing value added and m-commerce services to the telecommunications industry.

An offer to acquire the cellular business of Africell, an exclusive Vodacom dealer in South Africa, was accepted on April 6, 2006. The acquisition is subject to a number of conditions including approval by the South African Competition Commission.

Volatility of the Rand

The value of the Rand as measured against the US Dollar has historically fluctuated significantly. During the three years ended March 31, 2006, however, the value of the Rand as measured against the Dollar has increased from R7.90 per $1.00 as of March 31, 2003 to R6.32 per $1.00 as of March 31, 2004, R6.22 per $1.00 as of March 31, 2005 and R6.15 per $1.00 as of March 31, 2006. Telkom's policy is to hedge its foreign denominated debt and operating and capital expenditures. Vodacom's policy is to hedge its foreign denominated commitments for operating and capital expenditures for its South African operations. Currency exchange hedges are not always available in other African countries or are not available on commercially acceptable terms. Decreases in the value of the Rand as measured against other currencies could increase the future cost in Rand terms of future foreign denominated debt, future foreign denominated financing costs and future foreign denominated operating and capital expenditures. Fair value adjustments on financial instruments are recorded in the Telkom Group's consolidated financial statements in the period they occur pursuant to IAS39–Recognition and Measurement of Financial Instruments. The effect of the application of this standard increased our consolidated profit before tax by R113 million in the 2006 financial year, and decreased our consolidated profit before tax by R9 million and R776 million in the 2005 and 2004 financial years, respectively. Future exchange rate and financial market volatility may continue to materially impact our future results due to the large volume of foreign exchange contracts entered into by us to cover our foreign currency denominated debt, financing and operating costs and capital expenditures.

Theft, vandalism, network fraud, payphone fraud and non-licensed operators

We have historically experienced significant cable theft, theft of solar panels and wireless communications equipment, vandalism of payphones, network fraud, such as non-licensed calls, and payphone fraud in our fixed-line business. Theft and vandalism have caused our fixed-line fault rates to increase and the repair time on our network and the downtime associated with such faults and network fraud and payphone fraud have resulted in lost operating revenue and significant costs. We have also lost operating revenue to non-licensed operators providing telecommunications services in South Africa. If we are unable to continue to minimize theft, vandalism, network fraud and payphone fraud, or if we continue to lose operating revenue to non-licensed operators in our fixed-line business, our fixed-line fault rates could increase and our operating revenue and net profit could decline.

Capital expenditures

Historically, our fixed line capital expenditures were aimed primarily at modernizing our network and rolling out lines in order to comply with our license obligations and prepare for competition. As we seek to implement our current strategy in the face of a significantly more competitive environment due to the entry of SNO-T and the further liberalization of the South African communications market as a result of the enactment of the Electronic Communications Act, we expect to shift our capital expenditure focus as we seek to evolve our fixed-line network to an internet protocol-based next generation network and increase investment in our employees. As a result, we expect that our fixed-line capital expenditures in the 2007 financial year will be spent primarily in the following areas:

- Maintenance of current service levels and growth, including:
  - the creation of new infrastructure to accommodate existing and new customers;
  - focusing on intelligent villages, gated communities and security complexes;
  - increasing our international network capacity;
  - supporting the growing leased business system market; and
  - supporting our business solution and e-business product growth.

- Improvements to current networks, including to:
  - upgrade and rehabilitate our fixed-line network;
  - prevent theft and fraud; and
  - evolve our fixed-line network for bandwidth flexibility.
- Enhancing customer centricity, including:
  - reducing the current network utilization in order to maintain spare capacity; and
  - pre-provision infrastructure to satisfy customer expectations.
- Next generation network, including:
  - offering new products and services, based on broadband;
  - remaining competitive in a fast growing market;
  - migrating to a network with reduced network infrastructure;
  - retaining revenues for products, services and features delivered on our current network;
  - optimizing the use of resources invested in both legacy and new technologies; and
  - migrating to next generation operating support systems.
- Regulatory and legal to comply with regulatory obligations related to:
  - lawful interception and carrier pre-selection; and
  - number portability and statutory compliance.

Our consolidated capital expenditures in property, plant and equipment for the 2007 financial year is budgeted to be approximately R10.3 billion, of which approximately R6.5 billion is budgeted to be spent in our fixed-line segment and approximately R3.8 billion is budgeted to be spent in our mobile segment, which is our 50% share of Vodacom's budgeted capital expenditure of approximately R7.6 billion. Our capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors. See "–Liquidity and Capital Resources–Capital Expenditures."

Employee related expenses

Employee related expenses are a significant component of our total fixed-line operating expenses. The number of Telkom employees declined by approximately 31,236 positions from March 31, 1997 through March 31, 2006. At March 31, 2006, we had 25,575 Telkom employees. We spent R88 million, R961 million and R302 million in the years ended March 31, 2006, 2005 and 2004, respectively, on our workforce reduction program. In October 2002, Telkom and its recognized trade unions agreed to embark on a process of implementing alternative strategies and approaches to avoid and minimize job losses and to create new career opportunities for Telkom employees. Telkom has placed a moratorium on employee reductions until March 31, 2007, subject to certain conditions, including re-training and re-skilling, "follow-the-job" initiative, flexibility and mobility of employees and voluntary separation packages at the discretion and initiative of Telkom. During the 2007 financial year, Telkom entered into a three-year long-term agreement on wages and benefits with the recognized unions, including extending the moratorium on employee reductions until March 31, 2007. We will evaluate future workforce reductions based on business and operational requirements, however, we currently expect that the number of employees may increase in the future, which may result in increased employee expenses.

Results of Operations

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

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

Year ended March 31, 2006 compared to year ended March 31, 2005 and year ended March 31, 2004

Consolidated results

The following table shows information related to our operating revenue, operating expenses, operating profit, profit for the year, profit margin, EBITDA and EBITDA margin for the periods indicated.

Telkom Group's segmental results

	Year ended March 31,							
	2004		2005		2006		2005/2004	2006/2005
	ZAR	%	ZAR	%	ZAR	%	% change	% change
	RESTATED		RESTATED					
	(in millions, except percentages)							
Operating revenue	**40,582**	**100.0**	**43,160**	**100.0**	**47,625**	**100.00**	**6.4**	**10.3**
Fixed-line	31,004	76.4	31,457	72.9	32,749	68.8	1.5	4.1
Mobile	11,428	28.2	13,657	31.6	17,021	35.7	19.5	24.6
Intercompany eliminations	(1,850)	(4.6)	(1,954)	(4.5)	(2,145)	(4.5)	5.6	9.8
Other income (1)	**255**	**100.0**	**280**	**100.0**	**480**	**100.0**	**9.8**	**71.4**
Fixed-line	230	90.2	255	91.1	430	89.6	10.9	68.6
Mobile	25	9.8	34	12.1	50	10.4	36.0	47.1
Intercompany eliminations	–	–	(9)	(3.2)	–	–	–	–
Operating expenses	**31,499**	**100.0**	**32,179**	**100.0**	**33,428**	**100.0**	**2.2**	**3.9**
Fixed-line	24,510	77.8	23,691	73.6	22,937	68.6	(3.3)	(3.2)
Mobile	8,839	28.1	10,451	32.5	12,636	37.8	18.2	20.9
Intercompany eliminations	(1,850)	(5.9)	(1,963)	(6.1)	(2,145)	(6.4)	6.1	9.3
Operating profit (2)	**9,338**	**100.0**	**11,261**	**100.0**	**14,677**	**100.0**	**20.6**	**30.3**
Fixed-line	6,724	72.0	8,021	71.2	10,242	69.8	19.3	27.7
Mobile	2,614	28.0	3,240	28.8	4,435	30.2	23.9	36.9
Operating profit margin (%)	**23.0**		**26.1**		**30.8**		**13.5**	**18.0**
Fixed-line	21.7		25.5		31.3		17.5	22.7
Mobile	22.9		23.7		26.1		3.5	10.1
Profit for the year attributable to equity holders of Telkom	**4,589**	**100.0**	**6,751**	**100.0**	**9,182**		**47.1**	**36.0**
Profit margin (%)	**11.3**		**15.6**		**19.3**		**38.1**	**23.7**
EBITDA (2) (3)	**16,586**	**100.0**	**17,549**	**100.0**	**20,553**	**100.0**	**5.8**	**17.1**
Fixed-line	12,707	76.6	12,753	72.7	14,646	71.3	0.4	14.8
Mobile	3,879	23.4	4,796	27.3	5,907	28.7	23.6	23.2
EBITDA margin (%)	**40.9**		**40.7**		**43.2**		**(0.5)**	**6.1**

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

(2) Total operating profit and EBITDA and mobile operating profit and EBITDA in the 2005 financial year include our 50% share of Vodacom's impairment of R268 million in respect of assets in Mozambique and a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets.

(3) Total EBITDA and mobile EBITDA represent profit for the year before taxation, finance charges, investment income and depreciation, amortization, impairments and Telkom's write-offs. See footnote 8 in Item 3. "Key Information–Selected Historical Consolidated Financial and Other Data of the Telkom Group" and footnote 4 in Item 3. "Key Information–Selected Historical Consolidated Financial and Other Data of Vodacom Group" for a reconciliation of EBITDA of the Telkom Group and Vodacom, respectively, to net profit. Fixed-line EBITDA represents operating profit before depreciation, amortization, 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. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or 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.

EBITDA can be reconciled to operating profit as follows:

	Year ended March 31,		
	2004	2005	2006
	ZAR	ZAR	ZAR
	RESTATED	RESTATED	
		(in millions)	
Fixed-line			
EBITDA	12,707	12,753	14,646
Depreciation, amortization, impairments and write-offs	(5,983)	(4,732)	(4,404)
Operating profit	6,724	8,021	10,242
Mobile			
EBITDA	3,879	4,796	5,907
Depreciation, amortization and impairments	(1,265)	(1,556)	(1,472)
Operating profit	2,614	3,240	4,435

Operating revenue

Operating revenue increased in the years ended March 31, 2006 and 2005 due to increased operating revenue in both our mobile and fixed-line segments. Vodacom's operating revenue increased in the 2006 financial year primarily due to strong customer growth and a continued improvement in market share as well as increased data revenues and equipment sales. Vodacom's operating revenue increased in the 2005 financial year primarily due to strong customer growth and the inclusion of 100% of Vodacom Congo's results. The increase in fixed-line operating revenue in the 2006 financial year was primarily due to continued growth in data revenue, higher subscriptions and connections revenue, higher fixed-to-mobile traffic revenue and higher interconnection revenue, partially offset by lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic. The increase in fixed-line operating revenue in the 2005 financial year was primarily due to continued growth in data services, higher subscriptions and connections tariffs and higher interconnection revenue from domestic mobile operators, partially offset by a decrease in traffic, lower average long distance and international outgoing tariffs and lower interconnection revenue from international operators. Fixed-line operating revenue accounted for 68.8%, 72.9% and 76.4% of our consolidated operating revenue before intercompany eliminations in the years ended March 31, 2006, 2005 and 2004, respectively.

Other income

Other income includes profit on the disposal of investments, property, plant and equipment and intangible assets. The increase in fixed-line other income in the 2006 financial year was primarily due to the realization of profits on the sale of investments held by our consolidated special purpose entity used to fund post retirement medical benefit obligations. The increase in fixed-line other income in the 2005 financial year was primarily due to the profit on the sale of our equity investment in New Skies Satellite N.V., a satellite company.

Operating expenses

Operating expenses increased in the years ended March 31, 2006 and March 31, 2005 as a result of increased operating expenses in our mobile segment, partially offset by decreases in operating expenses in our fixed-line segment in both years. The increase in mobile operating

expenses in the 2006 financial year was primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition and as a result of increased cost of equipment for increased handset sales and maintenance of the GSM infrastructure and billing systems, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount, average 6% annual salary increases, the inclusion of a provision for long-term incentives for executives and an increase in the provision for bonus schemes due to increased profits, increased operating leases and increased services rendered, partially offset by decreased depreciation, amortization and impairments. The increase in mobile operating expenses in the 2005 financial year was primarily due to increased selling, general and administrative expenses as a result of an increase in selling, distribution and other expenses, incentive costs, regulatory and license fees and marketing expenses to support the launch of 3G, growth in Vodacom's South African and other African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortization and impairments and higher staff costs associated with increased headcount, salaries and employee deferred bonus incentive accrued to support the growth in operations. In addition, operating leases increased in the 2005 financial year while services rendered decreased in the 2005 financial year.

The decrease in fixed-line operating expenses in the 2006 financial year was primarily attributable to lower employee expenses and reduced depreciation, amortization, impairments and write-offs, partially offset by higher payments to other network operators, services rendered, selling, general and administrative expenses and operating leases. Employee expenses decreased primarily due to reduced workforce reduction expenses, lower headcount and increased employee related expenses capitalized, partially offset by salary increases and related benefits. Depreciation, amortization, impairments and write-offs decreased primarily as a result of an increase in the useful lives of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment. Payments to other network operators increased primarily due to higher call volumes from our fixed-line network to the mobile networks and increased international outgoing traffic arising from our reduced tariffs. Services rendered increased primarily due to increased property management expenses at TFMC and increased payments to consultants, partially offset by the nonrecurrence of fees paid to Thintana Communications. Selling, general and administrative expenses increased primarily due to increased other expenses resulting from higher costs of sales and higher marketing costs, partially offset by lower materials and maintenance expenses and, to a lesser extent, reduced bad debts. Operating leases increased primarily due to the impact of the straightlining of lease payments, an increase in vehicle operating costs and higher building lease costs following new lease agreements, partially offset by a reduction in the number of vehicles in our fleet.

The decrease in fixed-line operating expenses in the 2005 financial year was primarily due to lower depreciation, amortization, impairments and write-offs, services rendered, payments to other network operators and operating leases, partially offset by higher employee expenses and selling, general and administrative expenses. Depreciation, amortization, impairments and write-offs were lower primarily due to the increase in the useful life of certain assets, the non-recurring accelerated depreciation of certain assets in the 2004 financial year and certain assets being fully depreciated in the 2004 financial year. Services rendered were lower due to decreased property management expenses resulting from space optimization and general efficiencies and reduced fees paid to Thintana Communications. Payments to other network operators decreased primarily due to lower international tariffs and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR, the notional currency in which international rates are determined, and, to a lesser extent, a reduction in calls from our fixed-line network to the mobile

networks and internationally, partially offset by higher mobile settlement rates. The lower operating leases were primarily due to the continued reduction of our vehicle fleet size, the continued relocation of employees from leased properties to owned properties and improvements in overall space utilization. Employee expenses increased primarily due to higher workforce reduction expenses, salary increases and overtime, partially offset by the lower headcount and related benefits and higher employee costs capitalized. Selling, general and administrative expenses increased primarily due to increased other expenses, which were significantly impacted in the 2004 financial year as a result of the reversal in the 2004 financial year of the R325 million provision for the Telcordia dispute, higher materials and maintenance expenses and higher marketing costs, partially offset by lower bad debts and a more favorable exchange rate.

Operating profit

Operating profit increased in both the 2006 and 2005 financial years due to increases in fixed-line operating profit as a result of higher revenue and a decline in operating expenses and increases in mobile operating profit primarily as a result of increased mobile operating revenue due to customer growth, partially offset by increases in operating expenses. As a result, the fixed-line operating profit margin increased from 21.7% in the 2004 financial year to 25.5% in the 2005 financial year and 31.3% in the 2006 financial year and the mobile operating profit margin increased from 22.9% in the 2004 financial year to 23.7% in the 2005 financial year and 26.1% in the 2006 financial year.

Investment income

Investment income consists of interest received on short term investments and bank accounts and income received from our investments. Investment income increased 13.4% to R397 million in the 2006 financial year and 8.7% to R350 million in the 2005 financial year from R322 million in the 2004 financial year primarily due to increased interest received as a result of higher average balances in investment and bank accounts.

Finance charges

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

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

Finance Charges

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
	(in millions, except percentages)				
Interest expense	**2,488**	**1,686**	**1,346**	**(32.2)**	**(20.2)**
Local loans	2,253	1,515	1,506	(32.8)	(0.6)
Foreign loans	303	281	9	(7.3)	(96.8)
Finance charges capitalized	(68)	(110)	(169)	(61.8)	(53.6)
Net fair value and exchange losses on financial instruments	**776**	**9**	**(113)**	**(98.8)**	**n/a**
Fair value adjustments on derivative instruments	1,144	(103)	(170)	(109.0)	(65.0)
Foreign exchange (gains) losses	(368)	112	57	(130.4)	(49.1)
Total finance charges	**3,264**	**1,695**	**1,233**	**(48.1)**	**(27.3)**

Finance charges decreased in the year ended March 31, 2006 and 2005 due to reduced interest expense as a result of lower interest bearing debt levels. In the 2006 financial year, the foreign exchange and fair value gain was R113 million primarily due to currency movements and unrealized gains relating to investments by our consolidated special purposes entity used to fund post retirement medical benefit obligations. In the 2005 financial year, the lower net fair value and exchange losses was a result of fair value gains on derivative instruments for foreign loans and foreign goods and services purchased due to the strengthening of the Rand, offset in part by foreign exchange losses due to the volatility of the Rand.

Taxation

Our consolidated tax expense increased 46.7% to R4,520 million in the year ended March 31, 2006 and 77.3% to R3,082 million in the year ended March 31, 2005 from R1,738 million in the year ended March 31, 2004. The increases in both the 2006 and 2005 financial years were primarily due to the increase in our pre-tax income.

The following table sets forth information related to our effective tax rate for the Telkom Group, Telkom Company and Vodacom for the periods indicated:

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
	(percentages)				
Effective tax rate					
Telkom Group	27.2	31.1	32.7	14.3	5.1
Telkom Company	15.6	20.6	25.0	32.1	21.4
Vodacom	36.1	40.2	37.5	11.4	(6.7)

The increase in the effective tax rate for the Telkom Group and Telkom in the 2006 financial year was mainly due to secondary tax on companies payable in respect of dividends paid by Telkom Company, partially offset by the lower effective rate of Vodacom. The lower effective tax rate for Vodacom in the 2006 financial year was mainly attributable to the decrease in the South African statutory tax rate from 30% to 29%, effective April 1, 2005. The higher effective tax rate for the Telkom Group and Telkom in the year ended March 31, 2005 was primarily due to the reversal of a non-deductible expenditure in the prior year as a result of the reversal of the Telcordia provision in the 2004 financial year and lower deferred tax on Secondary Taxation on Companies credits in the 2005 financial year. In addition, the Telkom effective tax rate was impacted in the 2005 financial year by the receipt of approximately R1.9 billion in dividends from our subsidiaries and Vodacom joint venture, which increased Telkom's net income but was not taxable to Telkom. The Telkom Group and Telkom were in a tax paying position for the 2005 financial year and provisional taxes of R1.5 billion were paid by September 2005. The higher tax expense for Vodacom in the 2005 financial year was largely as a result of the Secondary Taxation on Companies paid on the dividends declared by Vodacom and unutilized tax losses in Vodacom Mozambique.

Minority interests

Minority interests in the income of subsidiaries increased 67.5% to R139 million in the year ended March 31, 2006 primarily due to an increase in profits at Vodacom Tanzania, the allocation of a R35 million VAT refund to minority interests of Smartphone as required by the purchase agreement, an increase in profits at Smartphone, profits of Cointel as well as a 19.2% increase in the profits at our Telkom Directory Services subsidiary. Minority interests in the income of subsidiaries increased 20.3% to R83 million in the year ended March 31, 2005 primarily due to a 35.6% increase in profits at Vodacom Tanzania and a 12.7% increased in profits in our Telkom Directory Services subsidiary.

Profit for the year attributable to equity holders of Telkom

Profit for the year attributable to equity holders of Telkom increased in the 2006 and 2005 financial years primarily due to increased operating profit in our fixed-line segment as well as in our mobile segment. The increases were bolstered by lower interest expense and lower net fair value and exchange losses on financial instruments in those years and, to a lesser extent, increased investment income, partially offset by increased taxes.

Fixed-line segment

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

Fixed-line 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 and our wireless data services and directory businesses.

The following table shows operating revenue for our fixed-line segment broken down by major revenue streams and as a percentage of total revenue for our fixed-line segment and the percentage change by major revenue stream for the periods indicated.

Fixed-line operating revenue

	Year ended March 31,							
	2004		2005		2006		2005/ 2004 % change	2006/ 2005 % change
	ZAR	% of revenue	ZAR	% of revenue	ZAR	% of revenue		
	(in millions, except percentages)							
	RESTATED		RESTATED					
Subscriptions and connections	**5,117**	**16.5**	**5,385**	**17.1**	**5,803**	**17.7**	**5.2**	**7.8**
Traffic	**18,313**	**59.1**	**17,760**	**56.5**	**17,563**	**53.6**	**(3.0)**	**(1.1)**
Local	5,910	19.1	5,746	18.3	5,753	17.6	(2.8)	0.1
Long-distance	3,770	12.2	3,577	11.4	3,162	9.7	(5.1)	(11.6)
Fixed-to-mobile	7,321	23.6	7,302	23.2	7,647	23.4	(0.3)	4.7
International outgoing	1,312	4.2	1,135	3.6	1,001	3.1	(13.5)	(11.8)
Interconnection	**1,643**	**5.3**	**1,546**	**4.9**	**1,654**	**5.1**	**(5.9)**	**7.0**
Data	**5,028**	**16.2**	**5,784**	**18.4**	**6,649**	**20.3**	**15.0**	**15.0**
Directories and other services	**903**	**2.9**	**982**	**3.1**	**1,080**	**3.3**	**8.7**	**10.0**
Fixed-line operating revenue	**31,004**	**100.0**	**31,457**	**100.0**	**32,749**	**100.0**	**1.5**	**4.1**

Fixed line operating revenue increased in the 2006 financial year primarily due to continued growth in data revenue, higher subscriptions and connections revenue, higher fixed-to-mobile traffic revenue and higher interconnection revenue, partially offset by lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic. The increase in fixed-line operating revenue in the 2005 financial year was primarily due to continued growth in data revenue, higher subscriptions and connections tariffs and higher interconnection revenue from domestic mobile operators, partially offset by a decline in traffic, as well as lower average long distance and international outgoing tariffs and lower interconnection revenue from international operators.

Fixed-line operating revenue was adversely impacted in both the 2006 and 2005 financial years due to a decrease in the number of residential postpaid PSTN lines primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and, in the 2005 financial year, our prepaid PSTN service, and lower connections, offset in part by lower disconnections in the 2005 financial year, and was positively impacted by an increase in ISDN channels, ADSL services, business postpaid PSTN lines and, in the 2005 financial year, prepaid PSTN lines. In addition, traffic was adversely affected in both years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up traffic being substituted by our ADSL service, as well as the decrease in the number of residential postpaid PSTN lines and increased competition in our payphones business. As a result, traffic declined 2.9% and 4.8% in the 2006 and 2005 financial years. Revenue per fixed access line increased 1.0% to R5,304 in the 2006 financial year primarily due to higher subscriptions and connections tariffs, fixed-to-mobile traffic revenue and interconnection revenue, partially offset by lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic. Revenue per fixed access line decreased 1.7% to R5,250 in the 2005 financial year from R5,341 in the 2004 financial year primarily due to the decline in traffic, as well as lower average long distance and international outgoing tariffs.

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 periods indicated.

Fixed-line subscription and connection revenue

	Year ended March 31,				
	2004	2005	2006	2005/2004	2006/2005
	ZAR	ZAR	ZAR	% change	% change
	RESTATED	RESTATED			
Total subscriptions and connections revenue (ZAR millions, except percentages)	**5,117**	**5,385**	**5,803**	**5.2**	**7.8**
Total subscription access lines (thousands, except percentages) [(1)]	**4,520**	**4,567**	**4,551**	**1.0**	**(0.4)**
Postpaid					
PSTN [(2)]	3,048	3,006	2,996	(1.4)	(0.3)
ISDN channels	601	664	693	10.5	4.4
Prepaid PSTN	856	887	854	3.6	(3.7)
Private payphones	15	10	8	(33.3)	(20.0)

(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 ISDN line includes two access channels and each primary ISDN line includes 30 access channels.
(2) Excluding ISDN channels. PSTN lines are provided using copper cable, DECT and fiber.

Revenue from subscriptions and connections increased in the years ended March 31, 2006 and 2005 mainly due to increased tariffs as well as an increase in the number of ISDN, business postpaid PSTN lines and, in the 2005 financial year, prepaid PSTN lines, partially offset by lower residential postpaid PSTN lines and, in the 2006 financial year, prepaid PSTN lines. The average monthly prices for subscriptions increased by 6.3% on January 1, 2005 and 6.0% on September 1, 2005. Additionally, there was an increase in revenue from the rental of customer premises equipment and voice enhanced services in both the 2006 and 2005 financial years as a result of tariff increases and an increase in the penetration of voice enhanced services.

The decrease in the number of residential postpaid PSTN lines in service in both the 2006 and 2005 financial years was primarily as a result of customer migration to mobile and higher bandwidth products such as ADSL and, in the 2005 financial year, our prepaid PSTN service and lower connections, partially offset by lower disconnections in the 2005 financial year. 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 2006 financial year was primarily due to continued migration to mobile services. In addition, we relaxed our credit policies which lead to fewer migrations of our postpaid customers to prepaid service in the 2006 financial year. The increase in prepaid lines in the 2005 financial year was mainly due to our increased marketing efforts for our prepaid telephone services, particularly to first-time residential customers with poor or no credit histories, and postpaid customers encouraged to migrate to prepaid services due to late payments and credit difficulties.

For a discussion of our connection and rental fees, see Item 4. "Information on the Company–Business Overview–Fixed-line communications–Fees and tariffs–Subscription and connection tariffs" and for a discussion of the number of customers during the periods, see Item 4. "Information on the Company–Business Overview–Fixed-line communications–Products and services."

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

The following table sets forth information related to our fixed-line traffic revenue for the periods indicated.

Fixed-line traffic revenue

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
Local traffic revenue (ZAR millions, except percentages)	**5,910**	**5,746**	**5,753**	**(2.8)**	**0.1**
Local traffic (millions of minutes, except percentages) (1)	20,547	19,314	18,253	(6.0)	(5.5)
Long distance traffic revenue (ZAR millions, except percentages)	**3,770**	**3,577**	**3,162**	**(5.1)**	**(11.6)**
Long distance traffic (millions of minutes, except percentages) (1)	4,616	4,453	4,446	(3.5)	(0.2)
Fixed-to-mobile traffic revenue (ZAR millions, except percentages)	**7,321**	**7,302**	**7,647**	**(0.3)**	**4.7**
Fixed-to-mobile traffic (millions of minutes, except percentages) (1)	3,980	3,911	4,064	(1.7)	3.9
International outgoing traffic revenue (ZAR millions, except percentages)	**1,312**	**1,135**	**1,001**	**(13.5)**	**(11.8)**
International outgoing traffic (millions of minutes, except percentages) (1)	427	415	515	(2.8)	24.1
International voice over internet protocol (millions of minutes, except percentages) (2)	25	89	83	256	(6.7)
Total traffic revenue (ZAR millions, except percentages)	**18,313**	**17,760**	**17,563**	**(3.0)**	**(1.1)**
Total traffic (millions of minutes, except percentages) (1)	29,595	28,182	27,361	(4.8)	(2.9)
Average total monthly traffic minutes per average Monthly access line (minutes) (3)	526	496	482	(5.7)	(2.8)

(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 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 declined in the 2006 financial year primarily due to a decline in lower average long distance and international outgoing traffic tariffs and lower local and long distance traffic, partially offset by increased local traffic tariffs, fixed to mobile traffic revenue and international outgoing traffic. Traffic revenue declined in the 2005 financial year primarily due to a decline in traffic and lower average long distance and international outgoing tariffs, partially offset by increased local and fixed-to-mobile tariffs.

ICASA approved a 2.2% increase in the overall tariffs for services in the basket for which there is a price cap effective January 1, 2004, a 0.2% increase in the overall tariffs for services in the basket effective January 1, 2005 and a 3.0% reduction in the overall tariffs for services in the basket effective September 1, 2005. Traffic was adversely affected in both the 2006 and 2005 financial years by the increasing substitution of calls placed using mobile services rather than our fixed-line service and dial-up traffic being substituted by our ADSL service, as well as the decrease in the number of residential postpaid PSTN lines and increased competition in our payphone business.

For a discussion of our traffic tariffs, see Item 4. “Information on the Company–Business Overview–Fixed-line communications–Fees and tariffs–Traffic tariffs” and for a discussion of our traffic during the periods discussed, see Item 4. “Information on the Company–Business Overview–Fixed-line communications–Products and Services–Traffic.”

Local traffic revenue was flat in the 2006 financial year. Increased revenue attributable to increased average local traffic tariffs was partially offset by lower traffic resulting primarily from internet call usage being substituted by our ADSL service and the substitution of calls placed using mobile services. Local traffic revenue declined in the 2005 financial year mainly due to lower traffic resulting primarily from internet call usage being substituted by our ADSL service. In addition, we increased penetration of discount and calling plans to stimulate usage in the 2005 and 2006 financial years and to counteract mobile substitution, which effectively lowers the cost to the customer. The decline in local traffic revenue in the 2005 financial year was partially offset by increased average local traffic tariffs. The price of local peak calls increased by 5.3% to 40 SA Cents per minute (VAT inclusive) on January 1, 2005. On September 1, 2005, we decreased the price of local peak calls after the first unit by 5.0% to 38 SA cents per minute (VAT inclusive).

Long distance traffic revenue decreased in the 2006 and 2005 financial years mainly due to a decrease in average long distance tariffs and lower long distance traffic. We decreased our fixed-line long distance traffic tariffs by 10% on January 1, 2005 and by a further 10% on September 1, 2005.

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 increased in the 2006 financial year primarily due to increased traffic as well as a marginal increase in average tariffs, partially offset by higher discounts offered to customers in order to retain traffic on our network. The increase in fixed-to-mobile traffic in the 2006 financial year was primarily due to the introduction our CellSaver product, which offers discounts to larger customers on fixed-to-mobile calls. Fixed-to-mobile traffic revenue decreased in the 2005 financial year primarily due to lower fixed-to-mobile traffic and increased discounts on fixed-to-mobile calls to combat mobile substitution, partially offset by increased fixed-to-mobile tariffs. Fixed-to-mobile traffic decreased in the 2005 financial year primarily as a result of an increase in the number of mobile customers, resulting in increased mobile-to-mobile traffic and less fixed-to-mobile traffic, particularly in our payphone segment.

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 and the number, duration and mix of calls to destinations outside South Africa. In the 2006 and 2005 financial year, international outgoing traffic revenue declined primarily as a result of a decrease in the average international outgoing tariffs. The decrease in the 2006 financial year was partially offset by a significant increase in international outgoing traffic primarily as a result of the reduced tariffs. International outgoing traffic declined in the 2005 financial year primarily due to increased competition from callback operators. The average tariffs to all international destinations decreased by 28% on January 1, 2005 with rates of R1.70 per minute (VAT inclusive) for major destinations like the United States, United Kingdom and Australia.

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 and international operators regardless of where the traffic originates or terminates. The following table sets forth information related to interconnection revenue for the periods indicated.

Interconnection revenue

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Interconnection revenue (ZAR millions, except percentages)	**1,643**	**1,546**	**1,654**	**(5.9)**	**7.0**
Domestic mobile interconnections					
Interconnection revenue from domestic mobile operators (ZAR millions, except percentages)	**697**	**748**	**760**	**7.3**	**1.6**
Domestic mobile interconnection traffic (millions of minutes, except percentages) (1)	2,159	2,206	2,299	2.2	4.2
International interconnection					
Interconnection revenue from international operators (ZAR millions, except percentages)	**946**	**798**	**894**	**(15.6)**	**12.0**
International interconnection traffic (millions of minutes, except percentages) (2)	1,188	1,318	1,355	10.9	2.8

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

(2) International interconnection traffic is based on the traffic registered through the respective exchanges and reflected on 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 2006 and 2005 financial years mainly due to increased traffic from domestic mobile operators and tariff increases for call termination, partially offset by lower tariffs on mobile international outgoing calls. Domestic mobile interconnection traffic increased in the years ended March 31, 2006 and 2005 primarily due to an overall increase in mobile calls as a result of a growing mobile market, partially offset by increased mobile-to-mobile calls bypassing our network.

Interconnection revenue from domestic mobile operators includes fees paid to our fixed-line business by Vodacom of R464 million in the year ended March 31, 2006, R465 million in the year ended March 31, 2005 and R417 million in the year ended March 31, 2004. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation. We expect interconnection revenue to increase as a result of the entrance of SNO-T in the future and the further liberalization of the South African telecommunications industry, which may partially mitigate declines in revenue in other areas.

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 March 31, 2006 primarily due to an increase in international interconnection traffic terminating on our network and the recognition of disputed international interconnection terminating traffic revenue from the 2005 financial year following the resolution of a dispute in the 2006 financial year. However, the traffic minutes relating to the disputed traffic revenue was not transferred from the 2005 financial year to the 2006 financial year. These increases were partially offset by lower international interconnection settlement rates and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR, the notional currency in which international rates are determined, volume discounts and a settlement preventing an illegal operator from carrying international incoming traffic. Interconnection revenue from international operators decreased in the year ended March 31, 2005 primarily due to lower international settlement rates and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR and lower traffic transiting through our network to other foreign networks due to aggressive competition in the international market. The decrease in the 2005 financial year was partially offset by an increase in international interconnect traffic terminating on our network mainly as a result of increased activity of call back operators in the market.

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

Data services revenue

	Year ended March 31,			2005/2004 % change	2006/2005 % change
	2004 RESTATED	2005 RESTATED	2006		
Data services revenue (ZAR millions, except percentages)	**5,028**	**5,784**	**6,649**	**15.0**	**15.0**
Leased lines and other data revenue [1]	4,119	4,748	5,282	15.3	11.2
Leased line facilities revenues from mobile operators	909	1,036	1,367	14.0	31.9
Number of managed network sites (at period end)	**9,061**	**11,961**	**16,887**	**32.0**	**41.2**
Internet dial-up subscribers (at period end)	**142,208**	**202,410**	**228,930**	**42.3**	**13.1**
Internet ADSL subscribers (at period end)	**8,559**	**22,870**	**53,997**	**167.2**	**136.1**
Internet satellite subscribers (at period end)	**192**	**1,427**	**1,981**	**n/a**	**38.9**
Total ADSL subscribers (at period end) [2]	**20,145**	**58,278**	**143,509**	**189.3**	**146.2**

(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 249, 254 and 168 as of March 31, 2006, 2005 and 2004, respectively.

Our data services revenue increased in the 2006 financial year primarily due to increased revenue from leased line facilities from mobile operators, data connectivity service, including ADSL connectivity and SAIX, internet access, and managed data networks, including UPN Supreme. These increases were partially offset by decreased tariffs for leased line facilities from mobile operators and data connectivity services. Our data services revenue increased in the 2005 financial year primarily due

to the increased data connectivity, including ADSL service, increased internet services, increased penetration of leased lines in corporate and business markets, increased demand for bandwidth with higher capacity and, to a lesser extent, increased numbers of customers using managed data networking services. Revenue from leased line facilities from mobile operators increased in the year ended March 31, 2006 and 2005 primarily due to the roll-out of third generation and universal mobile telecommunications system products by the mobile operators.

Operating revenue from our data services included R845 million, R562 million and R466 million in revenue received by our fixed-line business from Vodacom in the years ended March 31, 2006, 2005 and 2004, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's revenue on consolidation.

For a discussion of our data services, see Item 4. "Information on the Company–Business Overview–Fixed-line communications–Products and services–Data communications services."

Directories and other services. Revenue from directories and other services consists primarily of advertising revenue from our subsidiary, Telkom Directory Services, and, to a substantially lesser degree, wireless data services revenue from our subsidiary, Swiftnet, and other miscellaneous revenue, including revenue from the sale of materials. Revenue from directories and other services increased in the years ended March 31, 2006 and 2005 primarily due to increases in directory services revenue from Telkom Directory Services as a result of annual tariff increases, increased marketing efforts resulting in increased spending on advertising by existing customers and additional advertising revenue from new customers.

Fixed-line operating expenses

The following table shows the operating expenses of our fixed-line segment broken down by expense category as a percentage of total revenue and the percentage change by operating expense category for the periods indicated.

Fixed-line operating expenses

	Year ended March 31,							
	2004		2005		2006			
	ZAR	% of revenue	ZAR	% of revenue	ZAR	% of revenue	2005/2004 % change	2006/2005 % change
	(in millions, except percentages)							
Employee expenses [1]	6,743	21.7	7,285	23.2	6,470	19.8	8.0	(11.2)
Payments to other network operators	6,063	19.6	5,896	18.7	6,150	18.8	(2.8)	4.3
Selling, general and administrative expenses [2]	2,640	8.5	3,046	9.7	3,086	9.4	15.4	1.3
Services rendered	2,202	7.1	1,976	6.3	2,050	6.3	(10.3)	3.7
Operating leases	879	2.8	756	2.4	777	2.4	(14.0)	2.8
Depreciation, amortization, impairments and write-offs	5,983	19.3	4,732	15.0	4,404	13.4	(20.9)	(6.9)
Fixed-line operating expenses	**24,510**	**79.1**	**23,691**	**75.3**	**22,937**	**70.0**	**(3.3)**	**(3.2)**

(1) Employee expenses include workforce reduction expenses of R88 million, R961 million and R302 million in the years ended March 31, 2006, 2005 and 2004, respectively.

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

Fixed-line operating expenses decreased in the 2006 financial year primarily due to lower employee expenses and reduced depreciation, amortization, impairments and write-offs, partially offset by higher payments to other network operators, services rendered, selling, general and administrative expenses and operating leases. Employee expenses decreased primarily due to reduced workforce reduction expenses, lower headcount and increased employee related expenses capitalized, partially offset by salary increases and related benefits. Depreciation, amortization, impairments and write-offs decreased primarily as a result of an increase in the useful lives of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment. Payments to other network operators increased primarily due to higher call volumes from our fixed-line network to the mobile networks and increased international outgoing traffic arising from our reduced tariffs. Services rendered increased primarily due to increased property management expenses at TFMC and increased payments to consultants, partially offset by the nonrecurrence of fees paid to Thintana Communications. Selling, general and administrative expenses increased primarily due to increased other expenses resulting from higher costs of sales and higher marketing costs, partially offset by lower materials and maintenance expenses and, to a lesser extent, reduced bad debts. Operating leases increased primarily due to the impact of the straightlining of lease payments, an increase in vehicle operating costs and higher building lease costs following new lease agreements, partially offset by a reduction in the number of vehicles in our fleet.

Fixed-line operating expenses decreased in the 2005 financial year primarily due to lower depreciation, amortization, impairments and write-offs, services rendered, payments to other network operators and operating leases, partially offset by higher employee expenses and selling, general and administrative expenses. Depreciation, amortization, impairments and write-offs were lower primarily due to the increase in the useful life of certain assets, the non-recurring accelerated depreciation of certain assets in the 2004 financial year and certain assets being fully depreciated in the 2004 financial year. Services rendered were lower due to decreased property management expenses resulting from space optimization and general efficiencies and reduced fees paid to Thintana Communications. Payments to other network operators decreased primarily due to lower international tariffs and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR, the notional currency in which international rates are determined, and, to a lesser extent, a reduction in calls from our fixed-line network to the mobile networks and internationally, partially offset by higher mobile settlement rates. The lower operating leases were primarily due to the continued reduction of our vehicle fleet size, the continued relocation of employees from leased properties to owned properties and improvements in overall space utilization. Employee expenses increased primarily due to higher workforce reduction expenses, salary increases and overtime, partially offset by the lower headcount and related benefits and higher employee costs capitalized. Selling, general and administrative expenses increased primarily due to increased other expenses, which were significantly impacted in the 2004 financial year as a result of the reversal in the 2004 financial year of the R325 million provision for the Telcordia dispute, higher materials and maintenance expenses and higher marketing costs, partially offset by lower bad debts and a more favorable exchange rate.

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 periods indicated.

Fixed-line employee expenses

	Year ended March 31,			2005/2004 % change	2006/2005 % change
	2004	2005	2006		
	(ZAR millions, except percentages and number of employees)				
Salaries and wages [(1)]	4,795	4,785	4,592	(0.2)	(4.0)
Benefits [(1)]	2,161	2,110	2,410	(2.4)	14.2
Workforce reduction expenses	302	961	88	218.2	(90.8)
Employee related expenses capitalized	(515)	(571)	(620)	10.9	8.6
Employee expenses	**6,743**	**7,285**	**6,470**	**8.0**	**(11.2)**
Number of full-time, fixed line employees (at period end) [(1)]	**32,934**	**29,544**	**26,156**	**(10.3)**	**(11.5)**

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

Employee expenses decreased in the year ended March 31, 2006 primarily due to reduced workforce reduction expenses, lower headcount and increased employee related expenses capitalized, partially offset by salary increases and related benefits, including increased performance incentives for the Telkom conditional share plan, and a change in the actuarial valuation of medical benefits. Employee expenses increased in the year ended March 31, 2005 primarily due to higher workforce reduction expenses, salary increases and overtime, partially offset by the lower headcount and related benefits and higher employee costs capitalized. Salaries and wages decreased in the year ended March 31, 2006 primarily due to a 11.5% reduction in the number of employees resulting from our workforce reduction program, partially offset by a 7% increase in base salaries and wages in line with collective bargaining agreements and an average 6% increase in salaries and wages for management employees. Salaries and wages decreased in the year ended March 31, 2005 primarily due to a 10.3% reduction in the number of employees in line with our workforce reduction program and a reduction in part-time and temporary workers, to a substantial degree offset by an 8% increase in base salaries and wages in line with collective bargaining agreements, an average 5% increase in salaries and wages for management employees and overtime to manage the substantial increase in the number of faults due to inclement weather. 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 in the 2006 financial year due to increased performance incentives for the Telkom conditional share plan, a change in assumptions used to calculate the actuarial valuation of medical benefits and increases in related benefits associated with increased salaries and wages, partially offset by the reduced number of employees. Benefits decreased in the 2005 financial year primarily due to the reduced number of employees as a result of our workforce reduction program and related benefits. Workforce reduction expenses include the cost of voluntary early retirement, termination severance packages offered to employees and the cost of social plan expense to prepare affected employees for new careers outside Telkom. Workforce reduction expenses decreased substantially in the year ended March 31, 2006 due to the moratorium on voluntary severance packages taken in the 2006 financial year. Workforce reduction expenses increased in the year ended March 31, 2005 due to the substantially higher number of employees accepting enhanced voluntary severance packages, as compared to the previous year, and the offering and acceptance of more enhanced packages resulting in an increased average workforce reduction package per employee. An additional 245 employees left Telkom in the 2006 financial year as part of the conclusion of Telkom's workforce reduction initiatives for the 2005 financial year, compared to 5,041 employees in the 2005 financial year and 1,633 employees in the 2004 financial year. For additional information related to our fixed-line employee numbers, see Item 4. "Information on the Company–Business Overview–Fixed–line communications–Employees."

Employee related expenses capitalized include employee related expenses associated with construction and infrastructure development projects. Employee related expenses capitalized increased in the years ended March 31, 2006 and March 31, 2005 primarily due to increased capital expenditures on projects during the year and, to a lesser degree, the higher labor demand on many projects that are in the realization phase.

Payments to other network operators. Payments to other network operators include settlement payments paid to the three South African mobile communications network operators 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 periods indicated.

Fixed-line payments to other network operators

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
	(in millions, except percentages)				
Payments to mobile communications network operators	5,041	5,059	5,231	0.4	3.4
Payments to international network operators	1,022	837	919	(18.1)	9.8
Payments to other network operators	**6,063**	**5,896**	**6,150**	**(2.8)**	**4.3**

Payments to other network operators increased in the 2006 financial year primarily due to higher call volumes from our fixed-line network to the mobile networks, resulting from discounts offered, including our CellSaver product, increased fixed-to-mobile calls by business customers due to growth in the mobile market and increased international outgoing traffic arising from our reduced tariffs. Payments to other network operators decreased in the 2005 financial year primarily due to lower international tariffs and a decrease in the Rand value of international settlement rates due to the strengthening of the Rand against the SDR, the notional currency in which international settlement rates are determined, and, to a lesser extent, a reduction in calls from our fixed-line network to the mobile networks and internationally, partially offset by the higher mobile settlement rates. Payments to other network operators include payments made by our fixed-line business to Vodacom, which were R2,855 million, R2,761 million and R2,764 million in the years ended March 31, 2006, 2005 and 2004, respectively. Fifty percent of these amounts were attributable to our interest in Vodacom and were eliminated from the Telkom Group's expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include materials and maintenance costs, marketing expenditures, bad debts, theft 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 periods indicated.

Fixed-line selling, general and administrative expenses

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
	(in millions, except percentages)				
Materials and maintenance	1,623	1,726	1,617	6.3	(6.3)
Marketing	306	360	413	17.6	14.7
Bad debts	254	196	187	(22.8)	(4.6)
Other[1]	457	764	869	67.2	13.7
Selling, general and administrative expenses [1]	**2,640**	**3,046**	**3,086**	**15.4**	**1.3**

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

Selling, general and administrative expenses increased in the year ended March 31, 2006 primarily due to increased other expenses resulting from higher costs of sales and higher marketing costs, partially offset by lower materials and maintenance expenses and, to a lesser extent, reduced bad debts. Selling, general and administrative expenses increased in the year ended March 31, 2005 primarily due to increased other expenses, which were significantly impacted in the 2004 financial year as a result of the reversal in the 2004 financial year of the R325 million provision for the Telcordia dispute, higher materials and maintenance expenses and higher marketing costs, partially offset by lower bad debts and a more favorable exchange rate. Materials and maintenance expenses include stock write-offs, subcontractor payments and consumables required to maintain our network. Materials and maintenance expenses decreased in the year ended March 31, 2006 primarily due to lower custom duties, reduced repairs and maintenance on data and processing equipment and savings on renegotiated maintenance contracts. Materials and maintenance expenses increased in the year ended March 31, 2005 primarily as a result of higher custom duties, annual escalation on maintenance contracts, bush-cutting projects and increased maintenance due to increased faults as a result of inclement weather, partially offset by a more favorable exchange rate. Marketing expenses increased in the year ended March 31, 2006 primarily due to increased sponsorships, higher market research costs and increased advertising and media campaigns. Marketing expenses increased in the year ended March 31, 2005 primarily as a consequence of extensive media campaigns and market research. We expect marketing expenses to continue to increase in the future in response to increased competition, including from SNO-T, and the further liberalization of the South African communications industry generally.

Bad debt decreased in the years ended March 31, 2006 and March 31, 2005 resulting primarily from improved credit management and credit vetting policies, targeted line roll-out and an improved profiling of debtors. Bad debt as a percentage of revenue was 0.6%, 0.6% and 0.8% in the 2006, 2005 and 2004 financial years, respectively.

Other expenses include obsolete stock, cost of sales, subsistence and travel and an offset for bad debts recovered. Other expenses increased in the year ended March 31, 2006 primarily due to higher cost of sales for PC bundles, managed network sites, business solutions and PABX products, as well as increased theft. Other expenses increased in the year ended March 31, 2005 primarily as a result of the reversal of the R325 million provision for the Telcordia dispute in the 2004 financial year, lowering expenses in that year. Excluding the reversal of the Telcordia provision, other expenses decreased in the 2005 financial year primarily due to lower irrecoverable staff debt and lower costs of sales of customer premises equipment.

Services rendered. Services rendered include payments in respect of the management of our properties, such as TFMC, a facilities and property management company, consultants and security. Consultants comprise fees paid to collection agents and to providers of other professional services, such as Thintana Communications 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 services rendered expenses for the periods indicated.

Fixed-line services rendered

	Year ended March 31,				
	2004	2005	2006	2005/2004	2006/2005
	ZAR	ZAR	ZAR	% change	% change
	(in millions, except percentages)				
Property management	1,164	1,068	1,107	(8.2)	3.7
Consultants, security and other	1,038	908	943	(12.5)	3.9
Services rendered	**2,202**	**1,976**	**2,050**	**(10.3)**	**3.7**

Property management increased in the year ended March 31, 2006 primarily as a result of increased salary, wages, maintenance, rates and taxes at TFMC, which are passed through to us. Property management decreased in the year ended March 31, 2005 primarily due to space optimization and general efficiencies in maintenance, cleaning and utilities usage. Payments to consultants increased in the year ended March 31, 2006 primarily due to regulatory and statutory compliance, collection agency commissions, transport costs, HIV awareness costs and audit costs, partially offset by the nonrecurrence of fees paid to Thintana Communications following the termination of the strategic services agreement and reduced short term insurance costs. Payments to consultants decreased in the year ended March 31, 2005 primarily resulting from lower fees paid to Thintana Communications as a consequence of fewer key personnel, a more favorable exchange rate and the termination of the strategic services agreement following the sale of Thintana Communications' shares in November 2004. Consultants, security and other payments include expenses of R57 million and R154 million in the years ended March 31, 2005 and 2004, respectively, for the strategic services provided by our previous strategic equity investor, Thintana Communications, pursuant to our strategic service agreement. A part of these payments made to Thintana Communications relate to capital projects and have been capitalized.

Operating leases. Operating leases include payments in respect of equipment, buildings and vehicles. Operating leases increased in the year ended March 31, 2006 primarily due to the impact of the straightlining of lease payments, an increase in vehicle operating costs and higher building lease costs following new lease agreements, partially offset by a reduction in the number of vehicles in our fleet from 10,458 vehicles as of March 31, 2005 to 9,708 vehicles as of March 31, 2006. Operating leases decreased in the year ended March 31, 2005 primarily due to a reduction in the number of vehicles in our fleet from 11,849 vehicles as of March 31, 2004 to 10,458 vehicles as of March 31, 2005. Our space optimization program, which relocated employees from leased premises to owned premises and improved overall space utilization, also contributed to the lower lease expense in the 2005 financial year.

Depreciation, amortization, impairments and write-offs. Depreciation, amortization, impairments and write-offs decreased in the year ended March 31, 2006 primarily as a result of an increase in the useful life of certain assets, partially offset by ongoing investment in telecommunications network equipment and data processing equipment. Depreciation, amortization, impairments and write-offs decreased in the year ended March 31, 2005 primarily as a result of an increase in the useful life of certain assets, the non-recurring accelerated depreciation of certain assets in the 2004 financial year and certain assets nearing their useful lives in the 2004 financial year. We incurred a R149 million impairment of Telkom's satellite earth station at Hartebeespoort in the 2004 financial year. Excluding this impairment, write-offs were relatively flat in the year ended March 31, 2005.

Mobile segment

Mobile is our fastest growing segment and encompasses all the operating activities of our 50% joint venture investment in Vodacom, the largest mobile operator in South Africa with an approximate 58% market share as of March 31, 2006 based on total estimated customers in South Africa. In addition to its South African operations, Vodacom has investments in mobile communications network operators in Lesotho, Tanzania, the Democratic Republic of the Congo and Mozambique.

Vodacom's operations outside of South Africa are at an earlier stage in their expansion and market penetration than its operations in South Africa. As a result, Vodacom's costs and capital expenditures per customer for its other African operations are generally higher than for its South African operations. Customers in other African countries increased significantly over the past three financial years to approximately 4.4 million as of March 31, 2006 from approximately 2.6 million as of March 31, 2005 and approximately 1.5 million as of March 31, 2004. A substantial portion of the growth was from prepaid services. Services outside of South Africa are mainly prepaid as these countries suffer from poverty and also due to the lack of banking systems and credit histories.

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

Mobile operating revenue and profits

	Year ended March 31,							
	2004		2005		2006			
	ZAR	% of revenue	ZAR	% of revenue	ZAR	% of revenue	2005/2004 % change	2006/2005 % change
	RESTATED		RESTATED					
	(in millions, except percentages)							
Operating revenue	**11,428**	**100.0**	**13,657**	**100.0**	**17,021**	**100.0**	**19.5**	**24.6**
South Africa	10,675	93.4	12,520	91.7	15,535	91.3	17.3	24.1
Other African countries	753	6.6	1,137	8.3	1,486	8.7	51.0	30.7
Operating profit (1)	**2,614**	**100.0**	**3,240**	**100.0**	**4,435**	**100.0**	**23.9**	**36.9**
South Africa	2,585	98.9	3,338	103.0	4,291	96.8	29.1	28.6
Other African countries	29	1.1	(98)	(3.0)	144	3.2	n/a	n/a
EBITDA(1) (2)	**3,879**	**100.0**	**4,796**	**100.0**	**5,907**	**100.0**	**23.6**	**23.2**

(1) Mobile operating profit and mobile EBITDA in the 2005 financial year include our 50% share of Vodacom's impairment of R268 million in respect of assets in Mozambique and a reversal of Vodacom's impairment loss of R53 million in the 2006 financial year due to an increase in the fair value of the assets.

(2) Our mobile EBITDA comprises our 50% share of Vodacom's EBITDA, which represents mobile net profit before taxation, finance charges, investment income and depreciation, amortization and impairments. See footnote 4 in Item 3. "Key Information–Selected Historical Consolidated Financial and Other Data of Vodacom" for a reconciliation of EBITDA of Vodacom to net profit. See footnote 2 in the table under "Operating and Financial Review and Prospects–Results of Operations–Year ended March 31, 2006 compared to year ended March 31, 2005 and year ended March 31, 2004 – Consolidated results" for a reconciliation of mobile EBITDA to operating profit. 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. EBITDA is not a US GAAP or IFRS measure. You should not construe EBITDA as an alternative to operating profit or cash flows from operating activities determined in accordance with US GAAP or 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.

Mobile operating revenue

Vodacom derives revenue from mobile services as well as other related or value added goods and services. Vodacom's revenue is mainly in the form of airtime charges, primarily airtime payments from customers registered on Vodacom's network; data products and services; interconnection revenue from other operators for the termination of calls on Vodacom's network and national roaming revenue from Cell C; revenue from equipment sales, including sales of handsets and accessories; and revenue from international services, including airtime charges for the use of Vodacom's network through roaming of customers from other international networks and Vodacom customers who roam abroad.

The following table shows our 50% share of Vodacom's revenue broken down by major revenue type and as a percentage of total operating revenue for our mobile segment and the percentage change by revenue type for the periods indicated.

Mobile operating revenue

	Year ended March 31,							
	2004		2005		2006			
	ZAR	% of revenue	ZAR	% of revenue	ZAR	% of revenue	2005/2004 % change	2006/2005 % change
	(in millions, except percentages)							
Airtime	6,369	55.7	8,096	59.3	10,043	59.0	27.1	24.0
Data	520	4.6	670	4.9	1,019	6.0	28.8	52.1
Interconnection	2,892	25.3	2,962	21.7	3,348	19.7	2.4	13.0
Equipment sales	1,138	10.0	1,344	9.8	1,993	11.7	18.1	48.3
International airtime	330	2.9	444	3.3	486	2.9	34.5	9.5
Other sales and services	179	1.5	141	1.0	132	0.7	(21.2)	(6.4)
Mobile operating revenue	**11,428**	**100.0**	**13,657**	**100.0**	**17,021**	**100.0**	**19.5**	**24.6**

The following table sets forth non-financial operational data of Vodacom for the periods indicated. The amounts stated for customers and traffic minutes reflect 100% of Vodacom's customers and traffic minutes.

	Year ended March 31,				
	2004	2005	2006	2005/2004 % change	2006/2005 % change
South Africa					
Customers (thousands) (at period end) [1]	**9,725**	**12,838**	**19,162**	**32.0**	**49.3**
Contract	1,420	1,872	2,362	31.8	26.2
Prepaid	8,282	10,941	16,770	32.1	53.3
Community services	23	25	30	8.7	20.0
Total inactive mobile customers (%) (at period end) [2]	**n/a**	**7.9**	**8.7**	**n/a**	**10.1**
Contract	n/a	1.5	2.4	n/a	60.0
Prepaid	n/a	9.0	9.6	n/a	6.7
Traffic minutes (millions of minutes) [3]	**12,172**	**14,218**	**17,066**	**16.8**	**20.0**
Outgoing	7,647	9,231	11,354	20.7	23.0
Incoming (Interconnection)	4,525	4,987	5,712	10.2	14.5
Average MOU (minutes) [4]	**96**	**84**	**74**	**(12.5)**	**(11.9)**
Contract	263	226	206	(14.1)	(8.8)
Prepaid	56	52	49	(7.1)	(5.8)
Community services	3,061	3,185	2,327	4.1	(26.9)
ARPU (ZAR) [5]	**177**	**163**	**139**	**(7.9)**	**(14.7)**
Contract	634	624	572	(1.6)	(8.3)
Prepaid	90	78	69	(13.3)	(11.5)
Community services	2,155	2,321	1,796	7.7	(22.6)

	Year ended March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Churn (%)[(6)]	**36.6**	**27.1**	**17.7**	**(26.0)**	**(34.7)**
Contract	10.1	9.1	10.0	(9.9)	9.9
Prepaid	41.3	30.3	18.8	(26.6)	(38.0)
Other African countries					
Customers (thousands) (at period end) (1)	**1,492**	**2,645**	**4,358**	**77.3**	**64.8**
Lesotho	80	147	206	83.8	40.1
Tanzania	684	1,201	2,091	75.6	74.1
Democratic Republic of the Congo	670	1,032	1,571	54.0	52.2
Mozambique	58	265	490	356.9	84.9
ARPU[(5)]					
Lesotho (ZAR)	125	92	78	(26.4)	(15.2)
Tanzania (ZAR)	128	81	67	(36.7)	(17.3)
Democratic Republic of the Congo (ZAR)	150	98	86	(34.7)	(12.2)
Mozambique (ZAR)	110	52	36	(52.7)	(30.8)
Churn (%)[(6)]					
Lesotho	65.1	17.3	22.3	(73.4)	28.9
Tanzania	30.0	29.6	28.5	(1.3)	(3.7)
Democratic Republic of Congo	20.2	23.1	28.1	14.4	21.6
Mozambique	0.3	11.3	32.2	n/a	185.0

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

(2) Vodacom's inactive customers are defined as all customers registered on Vodacom's network for which no revenue generating activity has been recorded for a period of three consecutive months. In the 2005 financial year, a software error was identified in the calculation of inactive customers. Vodacom has corrected inactive customers as of March 31, 2005. Information for prior years is unavailable.

(3) Vodacom's traffic comprises total traffic registered on Vodacom's network, including bundled minutes, outgoing international roaming calls and calls to free services, but excluding national and incoming international roaming calls. Vodacom has changed the calculation of traffic in the 2006 financial year to exclude packet switch data traffic. Traffic has been recalculated for the 2005 and 2004 financial years.

(4) Vodacom's average MOU is calculated by dividing the average monthly minutes during the period by the average monthly total reported customer base during the period. MOU excludes calls to free services, bundled minutes and data minutes.

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

(6) Churn is calculated by dividing the average monthly total number of disconnections during the period by the average monthly total reported customer base during the period. Vodacom's contract customers are disconnected when they terminate their contract, or their service is disconnected due to non-payment. Prepaid customers in South Africa were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period, expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers in South Africa to align itself with European and industry standards. From December 2003, prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days.
For other African countries, each subsidiary has its own disconnection rule to disconnect inactive prepaid customers. Vodacom Lesotho disconnects its prepaid customers at the expiration of time window lock of 210 days. Vodacom Tanzania, Vodacom DRC and Vodacom Mozambique disconnect their prepaid customers if they record no revenue generating activity within a period of 215 consecutive days. See "Item 4."Information on the Company–Business Overview–Mobile communications" and "Information on the Company–History and development of the Company–Recent Developments–Vodacom's change in South African definition of active customers".

Vodacom's operating revenue increased in the year ended March 31, 2006 as a result of strong customer growth and a continued improvement in market share as well as increased data revenues and equipment sales. Vodacom's operating revenue increased in the year ended March 31, 2005 primarily due to strong customer growth and the inclusion of 100% of Vodacom Congo's results. Vodacom's equipment sales increased in the 2006 and 2005 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies.

Our 50% share of Vodacom's revenue from operations outside of South Africa increased to R1,486 million for the year ended March 31, 2006 from R1,137 million in the year ended March 31, 2005 and R753 million in the year ended March 31, 2004. The increase in Vodacom's operating revenue from other African countries in the 2006 financial year was primarily due to substantial increases in the number of customers in Vodacom's operations in Tanzania and the Democratic Republic of the Congo, partially offset by lower ARPU resulting from the higher volume of lower spending prepaid customers, and the strength of the Rand, which resulted in lower foreign currency denominated revenue. The increase in Vodacom's operating revenue from other African countries in the 2005 financial year was primarily due to significant customer growth and the inclusion of 100% of Vodacom Congo's results, partially offset by declining ARPU and Rand-based revenue due to the strengthening of the South African Rand against the U.S. Dollar and Tanzanian Shilling. Revenue from Vodacom's other African countries as a percentage of Vodacom's total mobile operating revenue increased to 8.7% in the year ended March 31, 2006 from 8.3% in the year ended March 31, 2005 and 6.6% in the year ended March 31, 2004.

A large part of the growth in mobile services was due to the success of prepaid services. Approximately 87.5% of Vodacom's South African mobile customers were prepaid customers at March 31, 2006 and approximately 92.1% of all gross connections were prepaid customers in the 2006 financial year. Vodacom expects the number of prepaid mobile users to continue to grow at a greater rate than contract mobile users. The increasing number of prepaid users, who tend to have lower average usage, and the lower overall usage as the lower end of the market is penetrated have resulted in decreasing overall average revenue per customer. As a result, total South African ARPU decreased to R139 per month in the 2006 financial year from R163 per month in the 2005 financial year and R177 per month in the 2004 financial year. South African contract ARPU decreased to R572 per month in the 2006 financial year from R624 per month in the 2005 financial year and R634 per month in the 2004 financial year. South African prepaid ARPU decreased to R69 per month in the 2006 financial year from R78 per month in the 2005 financial year and R90 per month in the 2004 financial year. In the 2006 and 2005 financial years, contract and prepaid customer ARPU were also negatively impacted by the high growth in Vodacom's hybrid contract product, Family Top Up, which contributed to the migration of higher spending prepaid customers, who tend to spend less than existing contract customers, to contracts.

Service providers in South Africa generally subsidize handsets when a contract customer enters into a new contract or renews an existing contract depending on the airtime and tariff plan and type of handset purchased. Subsidized handset sales give customers an incentive to switch operators to obtain new handsets and have contributed to churn. Handsets for prepaid customers are not subsidized by Vodacom as these users have the freedom of switching operators and contribute to churn. Vodacom is more vulnerable to churn than other mobile communications providers in South Africa since it has the largest number of customers in South Africa.

The cost to acquire contract customers in a highly developed market is high. Vodacom has therefore implemented upgrade and retention policies over the last few years and has strived to maintain a high level of incentives to service providers in order to reduce churn. Vodacom's churn rate for contract customers in South Africa increased to 10.0% in the 2006 financial year from 9.1% in the 2005 financial year mainly due to the migration of payphone operators which are contract customers to community services. Vodacom's churn rate for contract customers in South Africa was 10.1% in the

2004 financial year. Vodacom's churn rate for prepaid customers in South Africa decreased to 18.8% in the 2006 financial year from 30.3% in the 2005 financial year and 41.3% in the 2004 financial year. The reduction in prepaid churn in South Africa in the 2006 financial year was primarily due to a combination of innovative products and services and loyalty initiatives. The decrease in prepaid churn in South Africa in the 2005 financial year was also a result of a change in business rules. Prepaid customers in South Africa were disconnected if they did not recharge their vouchers after being in time window lock for six months for periods prior to November and December 2002, for four months for periods from November and December 2002 until April 2003 and for three months from April 2003 until December 2003. Time window lock occurs when a customer's paid active time window, or access period, expires. In December 2003, Vodacom changed the deactivation rule for prepaid customers in South Africa to align itself with European and industry standards. From December 2003, prepaid customers in South Africa are disconnected from its network if they record no revenue generating activity within a period of 215 consecutive days. For a discussion of Vodacom's churn rate, see Item 4. "Information on the Company–Business Overview–Mobile communications–South Africa–Customers." Prepaid churn is adversely impeded by an increasingly competitive market, lower barriers to entry for prepaid customers in South Africa and the volatile nature of the prepaid customer base.

Airtime. Vodacom derives airtime revenue from connection and monthly rental fees and airtime usage fees paid by Vodacom's contract customers for use of its mobile networks. Airtime revenue also includes fees paid by Vodacom's prepaid phone customers for prepaid starter phone packages and airtime recharge vouchers utilized, which entitle customers to receive unlimited incoming calls for 365 days. Airtime revenue depends on the total number of customers, traffic volume, mix of prepaid and contract customers and tariffs.

Vodacom's airtime revenue increased in the year ended March 31, 2006 primarily due to continued customer growth, partially offset by an overall continued decline in ARPU resulting from the effect of growth in lower spending prepaid customers. Vodacom's airtime revenue increased in the year ended March 31, 2005 primarily due to customer growth and the inclusion of 100% of Vodacom Congo's results. As Vodacom's primary market in South Africa continues to mature and Vodacom continues to connect more marginal customers in its South African operations, Vodacom expects that growth in airtime in South Africa will continue to slow. Total customers increased 51.9% and 38.0% in the years ended March 31, 2006 and 2005, respectively, primarily due to strong prepaid customer growth in South Africa and significant customer growth in Vodacom's operations outside of South Africa, particularly in Tanzania and the Democratic Republic of the Congo in the 2006 financial year. New products, packages and services also had a role in Vodacom's customer growth in the 2006 and 2005 financial years. For a discussion of Vodacom's customers and traffic see Item 4. "Information on the Company–Business Overview–Mobile communications–South Africa–Customers" and Item 4. "Information on the Company–Business Overview–Mobile communications–South Africa–Traffic."

Data revenue. Vodacom derives data revenue from mobile data, including short messaging services, or SMSs, and multimedia messaging services, or MMSs, general packet radio services, or GPRS, and third generation services, or 3G. Vodacom's mobile data revenue increased in the year ended March 31, 2006 primarily due to continued significant growth in SMS usage and, to a lesser extent, new data initiatives such as Vodafone Mobile Connect Cards, Vodafone live!, Mobile TV and BlackBerry®. Vodacom's mobile data revenue increased in the year ended March 31, 2005 primarily due to increased SMS usage.

Vodacom introduced SMS only roaming and a number of promotional offerings such as free MMS and SMS in the 2004 financial year. Vodacom's SMS traffic increased to approximately 3.5 billion SMSs in the year ended March 31, 2006 from approximately 2.4 billion SMSs in the year ended March 31, 2005 and approximately 2.0 billion SMSs in the year ended March 31, 2004. The number of MMS users increased to 867,119 as of March 31, 2006 from 328,974 as of

March 31, 2005 and 61,374 as of March 31, 2004 and the number of GPRS users increased to 1,386,329 as of March 31, 2006 from 579,581 as of March 31, 2005 and 100,128 as of March 31, 2004. The number of 3G active handsets increased to 179,576 as of March 31, 2006 from 10,878 as of March 31, 2005 and the number of Vodafone Mobile Connect Cards increased to 37,798 as of March 31, 2006 from 5,101 as of March 31, 2005. As of March 31, 2006 Vodacom had 351,427 Vodafone live! and 12,903 Unique Mobile TV users on its network.

Interconnection. Vodacom generates interconnection revenue when a call originating from our fixed-line network or one of the other mobile operators' networks terminates on Vodacom's network. Interconnection revenue also includes revenue from Cell C for national roaming services. Vodacom does not have a roaming agreement with MTN. Vodacom generates national roaming revenue when its mobile network carries a call made from a Cell C customer. Interconnection revenue depends on the volume of traffic terminating on Vodacom's network, the interconnection termination rates payable by ourselves and the other mobile operators to Vodacom and national roaming rates.

Vodacom's interconnection revenue increased in the years ended March 31, 2006 and March 31, 2005 primarily due to an increase in the number of calls terminating on Vodacom's network as a result of the increased number of Vodacom's customers and South African mobile users generally. The growth in the 2006 financial year was also attributable to the growth in the substitution of fixed-line calls by mobile calls and incoming traffic resulting from an overall increase in the customer base of other mobile operators and the resultant increase in national roaming revenue from Cell C. Adding to the growth in interconnection revenue in the 2005 financial year was an overall increase in Cell C's customer base and the resultant increase in national roaming revenue as well as increased interconnection revenue from Vodacom's other African operations. The increases were partially offset by a reduced number of fixed-line calls from Telkom's network terminating on Vodacom's network. Interconnection revenue in our mobile segment included R1,409 million, R1,364 million and R1,367 million in the years ended March 31, 2006, 2005 and 2004, respectively, for calls received from our fixed-line business, which were eliminated from the Telkom Group's revenue on consolidation.

Equipment sales. Vodacom generates revenue from equipment sales primarily from the sale of mobile phones and accessories. Vodacom purchases handsets for itself and for external service providers in bulk at purchase discounts in order to lower the cost of handset subsidization for contract customers. Equipment sales revenue fluctuates based on whether external providers and Vodacom's other African operators source equipment from Vodacom in South Africa or purchase equipment from third party suppliers.

Vodacom's equipment sales increased in the 2006 and 2005 financial years primarily due to the growth of Vodacom's customer base and the continued uptake of new handsets in South Africa as a result of cheaper Rand-prices of new handsets and the added functionality of new phones based on new technologies such as 3G enabled phones, camera phones and color screens. Sales of the Vodafone live! handset increased significantly to 510,283 handsets in the 2006 financial year.

International airtime. International airtime revenues are predominantly from international calls by Vodacom customers, roaming revenue from Vodacom's customers making and receiving calls while abroad and revenue from international customers roaming on Vodacom's networks. International airtime increased 9.5% to R486 million in the year ended March 31, 2006 primarily as a result of an increase in customers resulting in increased traffic, marginally offset by lower international tariffs due to country rezoning. International airtime increased 34.5% to R444 million in the year ended March 31, 2005 from R330 million in the year ended March 31, 2004 primarily as a result of increases in international airtime from Vodacom Congo and Vodacom South Africa, as well as an increase in roaming partners. The increase in South African international airtime was offset in part by the strengthening of the Rand against the trade-weighted basket of international currencies in the

2005 financial year.

Other. Other revenue includes, among other things, revenue from non-core operations. Vodacom's other sales and services revenue decreased 6.4% to R132 million in the 2006 financial year primarily due to lower breakage income as a result of a reduction in the occurrence of unactivated starter packs which do not contain an expiration date and lower repair income, partially offset by higher revenue at Cointel. Vodacom's other sales and services revenue decreased 21.2% to R141 million in the 2005 financial year from R179 million in the 2004 financial year primarily as a result of the reallocation of value-added services revenue, which was previously included under other sales and services, to airtime connection and access. The decrease in the 2005 financial year was offset marginally by other sales and services revenue received in Smartcom.

Mobile operating expenses

The following is a discussion of our mobile segment's operating expenses which are comprised of our 50% interest in Vodacom's operating expenses. Vodacom's operating expense line items are presented in accordance with the line items reflected in the Telkom Group's consolidated operating expenses which are different from the operating expense line items contained in Vodacom's consolidated financial statements.

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

Mobile operating expenses

	Year ended March 31,				
	2004 ZAR	2005 ZAR	2006 ZAR	2005/2004 % change	2006/2005 % change
	RESTATED	RESTATED			
	(in millions, except percentages)				
Employee expense	666	826	1,019	24.0	23.4
Payments to other network operators	1,495	1,826	2,317	22.1	26.9
Selling, general and administrative expenses	5,076	5,891	7,328	16.1	24.4
Services rendered	65	45	65	(30.8)	44.4
Operating leases	272	307	435	12.9	41.7
Depreciation, amortization and impairments	1,265	1,556	1,472	23.0	(5.4)
Mobile operating expenses	**8,839**	**10,451**	**12,636**	**18.2**	**20.9**

Mobile operating expenses increased in the 2006 financial year primarily due to increased selling, general and administrative expenses to support the expansion of 3G, growth in Vodacom's South African and African operations and increased competition and as a result of increased cost of equipment for increased handset sales and maintenance of the GSM infrastructure and billing systems, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, higher employee costs as a result of increased headcount, average 6% annual salary increases, the inclusion of a provision for long-term incentives for executives and an increase in the provision for bonus schemes due to increased profits, increased operating leases and increased services rendered, partially offset by decreased depreciation, amortization and impairments. Mobile operating expenses increased in the 2005 financial year primarily due to increased selling, general and administrative expenses as a result of an increase in selling, distribution and other expenses, incentive costs, regulatory and license fees and marketing expenses to support the launch of 3G, growth in Vodacom's South African and other African operations and increased competition, increased payments to other network operators due to higher outgoing traffic and the increased percentage of outgoing traffic terminating on other mobile networks, increased depreciation, amortization and impairments and higher staff costs associated with increased headcount, salaries and employee deferred bonus incentive accrued to support the growth

in operations. In addition, operating leases increased in the 2005 financial year while services rendered decreased in the 2005 financial year.

Employee expenses. Employee expenses consist mainly of salaries and wages of employees as well as contributions to employee pension, medical aid funds and benefits and the deferred bonus incentive scheme.

Vodacom's employee expenses increased in the year ended March 31, 2006 primarily as a result of a 9.3% increase in the number of employees to support the growth in operations, 6% annual salary increases, the inclusion of a provision for long-term incentives for executives and an increase in the provision for bonus schemes due to increased profits. Vodacom's employee expenses increased in the year ended March 31, 2005 primarily as a result of an 8.3% increase in the number of employees to support the growth in operations, an 8.0% average annual group-wide salary increase and higher deferred bonus incentive accrual associated with Vodacom's increased net profit.

Total headcount in Vodacom's South African operations increased 9.8% to 4,305 employees as of March 31, 2006 and 1.8% to 3,919 employees as of March 31, 2005 from 3,848 employees as of March 31, 2004. Total headcount in Vodacom's other African countries increased 7.4% to 1,154 employees as of March 31, 2006 and 41.1% to 1,074 employees as of March 31, 2005 from 761 employees as of March 31, 2004. Total headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of employees of other African countries and excluded from Vodacom South Africa's number of employees. Employee productivity in South Africa and other African countries, as measured by customers per employee, increased 38.9% to 4,308 customers per employee as of March 31, 2006 and 27.4% to 3,101 customers per employee as of March 31, 2005 from 2,434 customers per employee as of March 31, 2004.

Payments to other network operators. Payments to other network operators consist mainly of interconnection payments made by Vodacom's South African and other African operations for terminating calls on other operators' networks. Vodacom's payments to other network operators increased significantly in the years ended March 31, 2006 and 2005 as a result of increased outgoing traffic in line with increased customer growth and the increasing percentage of outgoing traffic terminating on the other mobile networks rather than Telkom's fixed-line network as the cost of terminating calls on other mobile networks is higher than calls terminating on Telkom's fixed-line network. As the mobile communications market continues to grow in South Africa, Vodacom expects that interconnection charges will continue to increase and adversely impact Vodacom's profit margins.

Payments to other network operators in our mobile segment included R232 million, R233 million and R209 million in the years ended March 31, 2006, 2005 and 2004, respectively, for interconnection fees paid to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Selling, general and administrative expenses. Selling, general and administrative expenses include customer acquisition and retention costs, packaging, distribution, marketing, regulatory license fees, bad debts and various other general administrative expenses, including accommodation, information technology costs, office administration, consultant expenses, social economic investment and insurance.

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

Mobile selling, general and administrative expenses

	Year ended March 31,				
	2004	2005	2006	2005/2004	2006/2005
	ZAR	ZAR	ZAR	% change	% change
	RESTATED	RESTATED			
	(in millions, except percentages)				
Selling, distribution and other	4,426	5,140	6,416	16.1	24.8
Marketing	351	384	488	9.4	27.1
Regulatory and license fees	275	335	406	21.8	21.2
Bad debts	24	32	18	33.3	(43.8)
Selling, general and administrative expenses	**5,076**	**5,891**	**7,328**	**16.1**	**24.4**

Vodacom's selling, general and administrative expenses increased in the years ended March 31, 2006 and 2005 primarily due to an increase in selling, distribution and other expenses, incentive costs, regulatory and license fees and marketing expenses to support the launch and expansion of 3G, growth in Vodacom's South African and African operations and increased competition.

Selling, distribution and other expenses include cost of goods sold, commissions, customer acquisition and retention expenses, distribution expenses and insurance. The increase in selling, distribution and other expenses in the 2006 and 2005 financial years was primarily due to an increase in customer connections, competition and revenue. The increase in the 2006 financial year was also due to the increased cost of equipment as a result of increased handset sales and maintenance of the GSM infrastructure and billing systems as well as due to the full year inclusion of the Vodafone global alliance fee. The increase in the 2005 financial year was also due to the inclusion of 100% of Vodacom Congo and the full year inclusion of Vodacom Mozambique and Smartphone.

The increase in marketing expenses in the 2006 financial year was mainly due to promoting new technologies, including 3G and Vodafone live!, and further promoting the Vodacom brand in all operations. The increase in marketing expenses in the 2005 financial year was mainly due to the marketing expense incurred with respect to the Vodafone alliance, the launch of Vodacom's 3G network, BlackBerry® and Vodafone live! and continued marketing of Vodacom Mozambique. The increases in regulatory and license fees during the reporting periods were directly related to the increase in operating revenues and corresponding payments under Vodacom's existing licenses.

Services rendered. Services rendered include consultancy services for technical, administrative and managerial services, audit fees, legal fees and communication and information technology costs. Services rendered increased in the year ended March 31, 2006 primarily due to higher consultancy costs relating to facility management and special projects as well as higher audit costs resulting from scope changes. Services rendered decreased in the year ended March 31, 2005 primarily due to the cost associated with the Nigeria investment in the 2004 financial year.

Operating leases. Operating leases include payments in respect of rentals of GSM transmission lines as well as office accommodation, office equipment and motor vehicles. The increase in Vodacom's operating leases in the years ended March 31, 2006 and 2005 was primarily due to an increase in the lease of transmission lines. Operating leases in our mobile segment included R423 million, R281 million and R233 million in the years ended March 31, 2006, 2005 and 2004, respectively, for operating lease payments to our fixed-line segment, which were eliminated from the Telkom Group's operating expenses on consolidation.

Depreciation, amortization and impairments. The decrease in Vodacom's depreciation, amortization and impairments in the year ended March 31, 2006 was primarily due to lower depreciation and amortization, resulting from the change in the useful lives of certain assets and a reversal of a portion of the prior year impairment of Vodacom Mozambique's assets resulting from an increase in the fair value, partially offset by higher depreciation as a result of the network and 3G roll-out. The significant increase in Vodacom's depreciation, amortization and impairments in the 2005 financial year was primarily due to the R268 million impairment of Vodacom Mozambique's assets in terms of IAS36, increased expenditure on infrastructure resulting from the introduction of 3G and the amortization of intangible assets in Smartphone. Additionally, because of the strengthening of the Rand against the U.S. dollar in the years ended March 31, 2006 and 2005, depreciation on foreign denominated capital expenditure in Vodacom's other African operations have been translated at a lower exchange rate than in the past, which resulted in a relatively lower depreciation charge in Vodacom's other African operations. Amortization of intangibles was lower in the year ended March 31, 2006 due to some of the customer bases being fully amortized in the previous year. Amortization of intangibles doubled in the year ended March 31, 2005 due to the reclassification of software, that does not form an integral part of hardware, from property, plant and equipment to intangible assets, in accordance with IAS38 following the adoption of the revised IAS16.

LIQUIDITY AND CAPITAL RESOURCES

Group Liquidity and Capital Resources

Cash flows

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

	Year ended March 31,				
	2004	2005	2006	2005/2004	2006/2005
	ZAR	ZAR	ZAR	% change	% change
	RESTATED	RESTATED			
	(in millions, except percentages)				
Cash flows from operating activities	13,884	15,711	9,506	13.2	(39.5)
Cash flows used in investing activities	(5,423)	(6,306)	(7,286)	16.3	15.5
Cash flows used in financing activities	(6,481)	(9,897)	(258)	52.7	(97.4)
Net increase/(decrease) in cash and cash equivalents	**1,980**	**(492)**	**1,962**	**(124.8)**	**498.8**
Effect of foreign exchange rate differences	(21)	(3)	(8)	(85.7)	166.7
Net cash and cash equivalents at the beginning of the year	837	2,796	2,301	234.1	(17.7)
Net cash and cash equivalents at the end of the year	**2,796**	**2,301**	**4,255**	**(17.7)**	**84.9**

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 2006 financial year was primarily due to the substantially higher dividends and taxation paid, as well as increased cash paid to suppliers, partially offset by higher cash receipts from customers. The increase in cash flows from operating activities in the 2005 financial year was primarily due to higher cash receipts from customers and lower finance charges, offset in part by higher taxation, increased cash paid to suppliers and dividends paid.

Cash flows used in investing activities

Cash flows used in investing activities relate primarily to investments in our fixed-line network and our 50% share of Vodacom's investments in its mobile networks in South Africa and other African countries. The increase in cash flows used in investing activities in the 2006 and 2005 financial year was primarily due to higher capital expenditure in our fixed-line and mobile segments, partially offset by increased proceeds on disposal of property, plant and equipment and intangible assets and investments in the 2006 financial year.

Cash flows used in financing activities

Cash flows from financing activities are primarily a function of borrowing activities. In the 2006 financial year, loans and finance lease repaid and shares repurchased and cancelled exceeded loans raised and the decrease in financial assets by R258 million. On April 11, 2005, we repaid Euro 500 million of our 7.125% unsecured Euro bond that was issued on April 12, 2000 by issuing commercial paper bills ranging in maturities from one month to one year, with yields of between 7.00% and 7.51% and by issuing a further R600 million 10.5% unsecured local bond (TL06) due October 31, 2006 at a yield to maturity of 8.18%. In addition, we repaid a net of R2,720 million of commercial paper bills and utilized R1,502 million for the share buy-back. Cash inflows from maturing financial assets amounted to R4,544 million in the 2006 financial year.

In the 2005 financial year, loans and finance lease repaid, the increase in financial assets and the purchase of treasury shares, exceeded loans raised by R9,897 million. We repaid a R2,299 million 13% unsecured local bond due May 31, 2004 and a net of R1,445 million of commercial paper bills and utilized R1,710 million for the repurchase of Telkom shares. We further increased our interest-bearing investments by R4,303 million by placing excess cash in short-term repurchase agreements. Vodacom entered into a US$ 180 million, medium term loan for Vodacom Congo to replace Vodacom Group's share of extended credit facilities relating to Vodacom Congo of US$16.3 million and Euro 38.8 million, which were repaid during the year. Telkom's 50% share of the Vodacom debt is included in Telkom's consolidated financial statements.

In the 2004 financial year, loans and finance leases repaid, the purchase of treasury shares and the increase in interest bearing investments exceeded loans raised by R6,481 million. We repaid a R4,311 million 10.75% unsecured local bond due September 30, 2003 and a R1,201 million 13% unsecured local bond due May 31, 2004. A net R67 million of commercial paper bills was repaid and we also settled R140 million of repurchase agreements and bills of exchange of R1,978 million. Vodacom repaid R920 million of shareholder loans in the 2004 financial year. Vodacom Congo (RDC) s.p.r.l., a subsidiary of Vodacom, entered into a Euro revolving credit facility of 11.5 million Euro (R186.9 million) and Vodacom Tanzania Limited, a subsidiary of Vodacom, repaid $4 million and TSH4,388 million (R56 million) in the 2004 financial year. Telkom's 50% share of the Vodacom debt is included in Telkom's consolidated financial statements.

Working capital

We had negative consolidated working capital of R3.0 billion as of March 31, 2006 compared to negative consolidated working capital of R2.3 billion as of March 31, 2005 and R3.2 billion as of March 31, 2004. Negative working capital arises when current liabilities are greater than current assets. The increased negative working capital in the 2006 financial year resulted primarily from maturing short term repurchase agreements, the proceeds of which were used in part for the payment of increased ordinary dividends, the payment of a special dividend and the payment of increased taxation. The decrease in negative working capital in the 2005 financial year was primarily due to increased cash generated from operations. In the 2005 financial year, we increased our interest-bearing investments to facilitate the payment of dividends and taxes payable in the 2006 financial

year. Telkom is of the opinion that the Telkom Group's cash flows from operations, together with proceeds from liquidity available under credit facilities and in the capital markets, will be sufficient to meet the Telkom Group's present working capital requirements for the twelve months following the date of this annual report. We intend to fund current liabilities through a combination of operating cash flows, new borrowings and borrowings available under existing credit facilities. We had R9.5 billion available under existing credit facilities as of March 31, 2006.

See Item 3. "Key Information–Risk Factors–Risks Related to Our Business–We have negative working capital, which may impair our operating and financial flexibility and require us to defer capital expenditures and we may not be able to pay dividends and our operations and financial condition could be adversely affected."

Capital expenditures and investments

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

	Year ended March 31,		
	2004	2005	2006
	ZAR	ZAR	ZAR
		(in millions)	
Group capital expenditure			
Fixed-line	**3,862**	**4,104**	**4,935**
Base expansion and core network	1,632	1,902	2,534
Network evolution	668	729	926
Efficiencies and improvements	1,201	1,177	1,080
Company support and other	361	296	395
Mobile	**1,506**	**1,747**	**2,571**
Total investment in property, plant and equipment and intangibles	**5,368**	**5,851**	**7,506**

Our capital expenditure of approximately R4.9 billion ($802 million) on fixed-line capital expenditure in the year ended March 31, 2006, was lower than the budgeted fixed-line capital expenditure for the 2006 financial year of R5.0 billion largely due to unplanned delays and a more favorable exchange rate. The 20.2% increase in fixed-line capital expenditure in the 2006 financial year was primarily due to higher expenditure for access line deployment in selected high growth residential areas, technologies to support the continued growth in our data services business and the ongoing rehabilitation of our access network and increasing the efficiencies and redundancies in our transport network in line with our planned migration to an internet protocol next generation network. The 47.2% increase in mobile capital expenditure in the 2006 financial year reflects the increased investment in South Africa in network infrastructure due primarily to the increased customer base and higher traffic and to further support 3G technologies.

Historically, our fixed line capital expenditures were aimed primarily at modernizing our network and rolling out lines in order to comply with our license obligations and prepare for competition. As we seek to implement our current strategy in the face of a significantly more competitive environment due to the entry of SNO-T and the further liberalization of the South African communications market as a result of the enactment of the Electronic Communications Act, we expect to shift our capital expenditure focus as we seek to evolve our fixed-line network to an internet protocol-based next generation network and increase investment in our employees. As a result, we expect that our fixed-line capital expenditures in the 2007 financial year will be spent primarily in the following areas:

• Maintenance of current service levels and growth;
• Improvements to current networks;
• Enhancing customer centricity;
• Next generation network; and
• Regulatory and legal to comply with regulatory obligations.

See "–Principal factors that affect our Results of Operations–Capital Expenditures."

Our consolidated capital expenditures in property, plant and equipment for the 2007 financial year is budgeted to be approximately R10.3 billion, of which approximately R6.5 billion is budgeted to be spent in our fixed-line segment and approximately R3.8 billion is budgeted to be spent in our mobile segment, which is our 50% share of Vodacom's budgeted capital expenditure of approximately R7.6 billion. Our capital expenditures are continuously examined and evaluated against the perceived economic benefit and may be revised in light of changing business conditions, regulatory requirements, investment opportunities and other business factors. See "Liquidity and Capital Resources–Capital Expenditures."

We spent approximately R4.1 billion ($660 million) on fixed-line capital expenditure in the year ended March 31, 2005, which was lower than budgeted fixed-line capital expenditure for the 2005 financial year of R4.6 billion largely due to more stringent investment criteria for capital investment in our fixed-line segment and savings resulting from the relative strength of the Rand against the US Dollar and Euro. The 6.2% increase in fixed-line capital expenditure in the 2005 financial year was primarily due to the earlier implementation of softswitch technology, the deployment of technologies to support our growing data services business, continued rehabilitation of the access network, increasing the efficiencies and redundancies in the transport network and expenditure for access line deployment in selected high growth residential areas. The 20.9% increase in mobile capital expenditure in the 2005 financial year was primarily due to increased investment in network infrastructure due to the increased customer base and higher traffic and to support Vodacom's investment in 3G technologies.

Contingent liabilities

On May 7, 2002, the South African Value Added Network Services Association, an association of value added network service providers, or VANS providers, filed complaints against Telkom at the Competition Commission of the Republic of South Africa under the South African Competition Act, 89 of 1998, alleging, among other things, that Telkom was abusing its dominant position in contravention of the Competition Act, 89 of 1998, and that it was engaged in price discrimination. The Competition Commission found, among other things, that several aspects of Telkom's conduct prima facie contravened the Competition Act, 89 of 1998, and referred certain of the complaints to the Competition Tribunal for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidized competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers. Telkom has brought an application in the South African High Court challenging the Competition Tribunal's jurisdiction to adjudicate this matter. The Competition Commission has opposed the application. These matters and the amount of Telkom's liability are not expected to be finalized within the next financial year. If these complaints are upheld, however, Telkom could be required to cease these practices and fined an amount of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, or be ordered to divest itself of the relevant business. Telkom is currently unable to predict the amount that it may eventually be required to pay. If Telkom is required to cease these practices, divest itself of the relevant business or pay significant fines, Telkom's business and financial condition could be materially adversely affected and its revenue and net profit could decline.

Telcordia instituted arbitration proceedings against Telkom in March 2001 seeking to recover approximately $130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year. The arbitration proceedings relate to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end-to-end customer assurance and activation system by Telcordia. In September 2002, a partial award was issued by the arbitrator in favor of Telcordia. Telkom subsequently filed an application in the South African High Court to review and set aside the partial award. On November 27, 2003, the South African High Court set aside the partial award and issued a cost order in favor of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. On November 29, 2004, the Supreme Court of Appeals granted Telcordia leave to appeal. Telcordia has since filed a notice of appeal. The appeal is set down for hearing from October 30, 2006 to November 3, 2006. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial award, which petition was dismissed, along with a subsequent appeal. Following the dismissal of the appeal, Telcordia filed a similar petition in United States District Court of New Jersey. The United States District Court of New Jersey also dismissed Telcordia's petition, reaffirming the decision of the United States District Court of Columbia. Telcordia has since appealed this dismissal. Telkom is currently unable to predict when the dispute will be resolved or the amount that it may eventually be required to pay Telcordia, if any, and has reversed all of its provisions for estimated liabilities, including interest and legal fees. As a result, as of March 31, 2006, Telkom had no provision for this claim. If Telcordia recovers substantial damages from Telkom, Telkom would be required to fund such payments from cash flows or drawings on its existing credit facilities, which could cause its indebtedness to increase and its net profit to decline.

In December 2005, the Internet Service Providers Association, or ISPA, an association of internet service providers, or ISPs, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The complaints deal with the cost of access to SAIX, the prices offered by TelkomInternet, the alleged delay in provision of facilities to ISPs and the alleged favorable installation timelines offered to TelkomInternet customers. The Competition Commission has formally requested Telkom to provided it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint. These matters and the amount of Telkom's liability are not expected to be finalized within the next financial year. Telkom is currently unable to predict the amount that it may eventually be required to pay. If Telkom is required to cease these practices, divest itself of the relevant business or pay significant fines, Telkom's business and financial condition could be materially adversely affected and its revenue and net profit could decline.

See Item 3. "Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–We are parties to a number of legal and arbitration proceedings, including complaints before the South African Competition Commission. If we lose these legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition" and Item 8. "Financial Information–Consolidated Financial Statements and Other Financial Information–Legal Proceedings." See also note 36 to the notes to the audited consolidated financial statements of the Telkom Group and note 35 to the notes to the audited consolidated financial statements of Vodacom included herein for additional information related to contingent liabilities of the Telkom Group and Vodacom, respectively.

Employee benefit special purpose entity

We had liabilities of R2,607 million, R2,430 million and R2,420 million in the years ended March 31, 2006, 2005 and 2004, respectively, in respect of post retirement medical aid obligations for current and retired employees. We set up a special purpose entity in the 2002 financial year for the purpose of funding these post retirement medical benefit obligations. This special purpose entity is purely used as a financing tool as we still retain our obligation to provide post retirement medical aid benefits to retired employees. As a result, it does not meet the definition of a plan asset in terms of IAS19 – Employee Benefits. Our interest in the special purpose entity is by way of equity, and this entity is fully consolidated in the Telkom Group's financial statements. The cumulative value of the funds in this special purpose entity was R2,819 million, R2,208 million and R1,370 million as of March 31, 2006, 2005 and 2004, respectively.

Subsequent to March 31, 2006, an addendum to the annuity policy contract was signed, which transferred a part of the post-retirement medical liability to an annuity fund. This will change the presentation of the liability and asset as the annuity policy will meet the definition of a plan asset in terms of IAS19, which requires that the liability be reduced by the fair value of the plan asset. The effect of this on the annual financial statements is expected to be a reduction in investments as well as liabilities. The amount of the reduction would have been approximately R1,731 million as of March 31, 2006 had this arrangement been in place as of that date.

Off-balance sheet transactions

We did not have any off-balance sheet transactions during the year ended March 31, 2006.

Contractual obligations

The following table sets forth the Telkom Group's contractual obligations as of March 31, 2006:

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(In ZAR millions)				
Long-Term Debt Obligations	12,414	3,426	4,581	1,793	2,614
Capital(Finance) Lease Obligations	1,272	45	180	141	906
Operating Leases					
Buildings	890	240	395	245	10
Rental receivable on buildings	(180)	(56)	(76)	(46)	(2)
Transmission and data lines	131	28	57	45	1
Vehicles	996	498	498	–	
Equipment	35	20	15	–	–
Sport and marketing contracts	567	149	253	165	–
Forward Exchange Contracts					
– To buy	2,761	2,761	–	–	–
– To sell	(1,342)	(1,067)	(275)	–	–
Other Long-Term Liabilities					
Reflected on the Company's Balance Sheet under IFRS	19,848	656	1,438	1,629	16,125
Total	**37,392**	**6,700**	**7,066**	**3,972**	**19,654**

Telkom has renewed its full maintenance lease agreement for its vehicles with Debis Fleet Management (Pty) Limited, a company incorporated in South Africa, as of April 1, 2005.
The original master lease agreement was for a period of five years and expired on March 31, 2005. The agreement has been extended for a further period of 3 years until March 31, 2008.

Funding sources

To date, we have financed our operations primarily from cash flows from operations and by borrowings in the South African and international capital markets. Access to international capital markets and its associated cost of funding depends in part on our credit ratings. We maintain an active dialog with the principal credit rating agencies who review our ratings periodically. Standard & Poor's International Ratings, LLC, a division of McGraw-Hill Companies Inc. has rated our foreign debt BBB, and Moody's Investors Services Inc., has rated our foreign currency long term issuer rating Baa1 as of March 31, 2006. Moody's Investors Service has increased our foreign currency long term issuer rating to A3 on May 24, 2006. We have not solicited a rating on our local Rand denominated debt due to our long standing relationships with Rand denominated investors. As of March 31, 2006, 92.3% of our debt was local debt, compared to 66.4% as of March 31, 2005 and 73.4% as of March 31, 2004. Our Rand denominated debt bears interest at rates ranging from 10 basis points to 60 basis points above treasuries and the effective interest rate for the year ended March 31, 2006 was 13.9%. Fixed rate debt represented approximately 92.0% of our total consolidated debt as of March 31, 2006.

The following table sets forth our consolidated indebtedness, including finance leases as of March 31, 2006.

	Interest payment dates	Interest rate (%)	Outstanding as of March 31, 2006	Nominal amount outstanding as of March 31, 2006	Maturing Year ended March 31, 2007	2008	2009	2010	2011	After 2011
			ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
					(in millions)					
TELKOM										
Bonds										
10% statutorily guaranteed local bond due not later than March 31, 2008 (TK01) (1) (2) (3)	March 31, September 30,	10	4,230	4,689	108	4,581	–	–	–	–
10.5% unsecured local bond due October 31, 2006 (TL06) (1) (4)	April 30, October 31	10.5	2,103	2,100	2,100	–	–	–	–	–
6% unsecured local bond due February 24 2020 (TL20) (5)	February 22,	6	1,214	2,500	–	–	–	–	–	2,500
Zero coupon unsecured loan stock due September 30, 2010 (PP02) (6)	–	–	230	430	–	–	–	–	430	–
Zero coupon unsecured loan stock due June 15, 2010 (PP03) (7)	–	–	730	1,350	–	–	–	–	1,350	–
Finance leases	n/a	11.3 – 37.72	867	867	5	10	16	1	11	824
Repurchase agreements	**n/a**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Commercial paper	**–**	**–**	**429**	**430**	**430**	**–**	**–**	**–**	**–**	**–**
Zero coupon unsecured commercial paper bills with a maturity not later than April 11, 2006. The average discount rate on these commercial paper bills is 7.0% per annum.										

	Interest payment dates	Interest rate (%)	Outstanding as of March 31, 2006	Nominal amount outstanding as of March 31, 2006	Maturing Year ended March 31, 2007	2008	2009	2010	2011	After 2011
			ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR
					(in millions)					
Bank facilities										
R600 million unsecured overdraft facility with ABSA Bank Limited, repayable on demand	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
R4 billion unsecured overdraft facility with The Standard Bank of South Africa Limited, repayable on demand	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
R500 million unsecured overdraft facility with FirstRand Bank Limited, repayable on demand	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
R150 million unsecured overdraft facility with Commerzbank AG, repayable on demand	–	Prime Rate	Not utilized	Not utilized	–	–	–	–	–	–
$35 million unsecured short-term loan facility with Calyon Corporate and Investment bank, various repayment dates	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
R500 million unsecured overnight revolving credit facility with HSBC Bank plc and R500 million unsecured short-term facility with HSBC Bank plc	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
R62.75 million unsecured short-term facility with Standard Chartered Bank	–	To be mutually agreed	Not utilized	Not utilized	–	–	–	–	–	–
Various bank loans (3)	–	Various	85	85	3	–			12	70
Bank overdraft and other short-term debt		–	–	–	–	–	–	–	–	–
Total Telkom		**–**	**9,888**	**12,451**	**2,646**	**4,591**	**16**	**1**	**1,803**	**3,394**
VODACOM (8)										
$8.4 million shareholders Loan with Planetel Communications Limited (9)	–	LIBOR+5%	21	21		–	–	–	–	21
$10 million shareholders loan with Caspian Construction Company (9)	–	LIBOR+5%	25	25	–	–	–	–		25
$15.6 million/Euro 7.8 and TSH 5,703.8 million project finance for Vodacom Tanzania Limited	–	6–14.5%	92	92	92	–	–	–	–	–
$180 million medium-term loan to Vodacom International Limited	–	LIBOR+0.6%	557	557	557	–	–	–	–	–
$37.0 million preference shares by Vodacom Congo (R.D.C) s.p.r.l. (10)	–	4%	114	114	114	–	–	–	–	–
Various finance leases (11)	–	12.1–16.9%	405	405	41	58	96	49	81	80
Various other short-term loans	–	Various	21	21	21	–	–	–	–	–
Bank overdrafts and other short-term debt	–	–	693	693	693	–	–	–	–	–
Total Vodacom (8)	**–**	**–**	**1,928**	**1,928**	**1,518**	**58**	**96**	**49**	**81**	**126**
TOTAL	**–**	**–**	**11,816**	**14,379**	**4,164**	**4,649**	**112**	**50**	**1,884**	**3,520**

(1) Listed on the Bond Exchange of South Africa.

(2) Open ended bond issue, and number of bonds issued varies from time to time. As of March 31, 2006, R4,689 million of these bonds were in issue.

(3) R4,315 million of Telkom's indebtedness outstanding as of March 31, 2006 was guaranteed by the Government of the Republic of South Africa.

(4) 1,500 of these bonds were issued on October 31, 2001 at a yield to maturity of 10.87%, and a further 600 of these bonds were issued on April 11, 2005 at a yield to maturity of 8.18%.

(5) 2,500 of these bonds were issued on February 22, 2000 at a yield to maturity of 15.00%. The TL20 bond was listed on the Bond Exchange of South Africa with effect from April 1, 2005.

(6) Issued on February 25, 2000. Original amount issued was R430 million. The yield to maturity of this instrument issued by Telkom is 14.37%.

(7) Issued on June 15, 2000. Original amount issued was R1,350 million. The yield to maturity of this instrument is 15.175%.

(8) Represents Telkom's 50% share of Vodacom's indebtedness.

(9) Repayable on approval of at least 60% of the shareholders of Vodacom Tanzania Limited.

(10) The preference shares are redeemable, but only after the first three years from date of issuance, and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.

(11) Secured by land and buildings.

We expect to repay the indebtedness and other obligations in the above table with cash flows from operations, new capital raised in the markets and/or existing or new credit facilities. Telkom's special purpose entity established to fund post retirement medical benefits obligations indirectly held R45 million in nominal value of Telkom's 10.5% unsecured local bond due October 31, 2006 (TL06) and 312,559 of Telkom's ordinary shares as of March 31, 2006.

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

The debt instruments in the above table do not contain any restrictive covenants except a number of the instruments contain provisions limiting our ability to create liens. Some of our debt contains cross default provisions. In addition, our R2.5 billion 6% local bonds due February 24, 2020 contain financial maintenance covenants requiring the Telkom Group to maintain the following ratios:

- EBITDA to net interest expense ratio of no less than 3.5:1; and
- net interest bearing debt to EBITDA ratio of no greater than 2.0:1 in the 2003 financial year, increasing to 3.0:1 in the years thereafter.

The above ratios are calculated semi-annually based on accounting policies in use at the time the indebtedness was incurred. Because the above ratios are calculated based on accounting policies in use at the time the indebtedness was incurred, EBITDA for purposes of the ratios is not calculated in the same manner as it is calculated elsewhere in this document. The covenants will be effective for so long as the initial subscriber holds at least 70% in nominal value of the bonds. We were in compliance with the above ratios during the year ended March 31, 2006.

All debt incurred by Telkom prior to 1991 is guaranteed by the Government of the Republic of South Africa pursuant to Section 35 of the South African Exchequer Act, 66 of 1975. The Government of the Republic of South Africa does not guarantee debt incurred thereafter or Vodacom's debt. As of March 31, 2006, R4.3 billion of our total debt of R11 billion was guaranteed by the Government of the Republic of South Africa.

No loans have been furnished by Telkom or any of its subsidiaries for the benefit of any director or any member of our senior management team as of March 31, 2006.

Telkom's policy is to hedge its exposure to foreign exchange rate fluctuations. Currency exchange hedges are not always commercially available in other African countries. Interest rate risk is converted to Rands and managed per our policy and control manual which stipulates guidelines on exposure to fixed and floating rate debt. Telkom's philosophy is to target a fixed/floating debt ratio of at least 65% fixed, adjusted to market conditions considering the interest rates at that time. If interest rates are low, Telkom will establish a higher than 65% fixed/floating debt ratio and when interest rates are high, Telkom seeks to establish the ratio closer to a 65% fixed/floating debt ratio.

Critical accounting policies and estimates

The consolidated financial statements of the Telkom Group and of Vodacom have been prepared in accordance with IFRS, which differs in certain respects from US GAAP. The significant differences between IFRS and US GAAP and the effects on net income and shareholders' equity, relating to the consolidated financial statements of the Telkom Group are described in note 44 to the Telkom Group's consolidated financial statements included elsewhere in this annual report. The description of the differences and the effects on net income and shareholders' equity of Vodacom are included in note 45 of Vodacom's consolidated financial statements included elsewhere in this annual report.
As further discussed in those financial statements, the most significant differences between IFRS and US GAAP relating to the Telkom Group's consolidated financial statements include revenue recognition, sale and leaseback transactions, derivative financial instruments, goodwill and deferred income taxes and for Vodacom they include derivative financial instruments, goodwill, joint venture accounting, deferred bonus incentive schemes, property, plant and equipment and deferred income taxes.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Telkom Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgments in the process of applying the Telkom Group's accounting policies.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Telkom Group may undertake in the future, actual results ultimately may differ from those estimates.

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual items of property, plant and equipment. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 5.6 of the consolidated financial statements of the Telkom Group.
The estimation of residual values of assets is also based on management's judgment that the assets will be sold and what their condition will be at that time.

For assets that incorporate both a tangible and intangible portion, management uses judgment to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Determination of impairments of property, plant and equipment, and intangible assets

Management is required to make judgments concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that an impairment exists. The Telkom Group applies an impairment assessment to its separate cash generating units. This requires management to make significant judgments concerning the existence of impairment indicators, identification of separate cash generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs to sell. Management judgment is also required when assessing whether a previously recognized impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash generating unit requires management to make assumptions to determine the fair value less costs to sell and value in use. Key assumptions on which management has based its determination of fair value less costs to sell include the existence of binding sale agreements, and for the determination of value in use include projected revenues, gross margins, average revenue per unit, earnings multiples, capital expenditure, expected customer bases and market share. The judgments, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment.

Financial assets

At each balance sheet date management assesses whether there are indicators of impairment of financial assets, including equity investments. If such evidence exists, the estimated present value of the future cash flows of that asset is determined. Management judgment is required when determining the expected future cash flows. To determine whether impairment is prolonged, management relies heavily on an assessment regarding the future prospects of the investee. In measuring impairments, quoted market prices are used, if available, or projected business plan information from the investee for those financial assets not carried at fair value.

Impairment of receivables

An impairment is raised for estimated losses on trade receivables that are deemed to contain a collection risk. The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment of their ability to make payments based on credit worthiness and historical write-off experience. Should the financial condition of our customers change, actual write offs could differ significantly from the impairment.

Taxation

Management judgment is exercised when determining the probability of future taxable profits which will determine whether deferred tax assets should be recognized or derecognized. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognize unutilized taxation credits, management needs to determine the extent that future payments are likely to be available for set-off. In the event that the assessment of future payments and future utilization changes, the change in the recognized deferred taxation must be recognized in profit or loss.

The tax rules and regulations in South Africa as well as the other African countries within which the Telkom Group operates are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African tax laws to further develop through changes in South Africa's existing tax structure as well as clarification of the existing tax laws through published interpretations and the resolution of actual tax cases.

The growth of the Telkom Group, following its geographical expansion into other African countries over the past few years, has made the estimation and judgment more challenging. The resolution of taxation issues is not always within the control of the Telkom Group and it is often dependant on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Telkom Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the income statement and taxation payments. The Telkom Group entities are subject to evaluation, by the relevant tax authorities, of their direct and indirect tax filings and in connection with such reviews, disputes can

arise with the taxing authorities over the interpretation or application of certain tax rules. These disputes may not necessarily be resolved in a manner that is favorable for the Telkom Group. Additionally the resolution of disputes could result in an obligation for the Tekom Group that exceeds management's estimate.

Employee benefits

The Telkom Group provides defined benefit plans for certain post-employment benefits. The Telkom Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered. The obligations and assets related to each of the post retirement benefits are determined through an actuarial valuation, which relies heavily on assumptions as disclosed in note 28 to the Telkom Group's consolidated financial statements. The assumptions determined by management make use of information obtained from the Telkom Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the expected return on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post retirement benefits may be affected materially.

The discount rate used reflects the average timing of the estimated defined benefit payments. The discount rate is based on zero coupon South African government bonds with a duration and maturity of 20 years as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

Telkom provides equity compensation in the form of the Telkom conditional share plan to its employees. The related expense and reserve are determined through an actuarial valuation, which relies heavily on assumptions as disclosed in note 28 to the Telkom Group's consolidated financial statements. The assumptions include employee turnover percentages and whether specified performance criteria will be met. Changes to these assumptions could affect the fair value of the shares and compensation expense as calculated by the actuary.

Provisions and contingent liabilities

Management judgment is required when recognizing and measuring provisions and when measuring contingent liabilities as set out in notes 26 and 36 of the Telkom Group's consolidated financial statements. The probability that an outflow of economic resources will be required to settle an obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which require management judgment. The Telkom Group is required to record provisions for legal contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgments regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Asset retirement obligations

Management judgment is exercised when determining the present value of expected future cashflows when the obligation to dismantle or restore sites arises, as well as the estimated useful life of related assets.

Revenue recognition

To reflect the substance of each transaction, revenue recognition criteria are applied to each separately identifiable component of a transaction. In order to account for multiple-element revenue arrangements in developing its accounting policies, the Telkom Group considered the guidance contained in the United States Financial Accounting Standards Board (FASB) Emerging Issues Task Force No 00-21 Revenue Arrangements with Multiple Deliverables. Judgment is required to separate those revenue arrangements that contain the delivery of bundled products or services into individual units of accounting, each with its own earnings process, when the delivered item has stand-alone value and the undelivered item has fair value. Further judgment is required to determine the relative fair values of each separate unit of accounting to be allocated to the total arrangement consideration. Changes in the relative fair values could affect the allocation of arrangement consideration between the various revenue streams.

Judgment is also required to determine the expected customer relationship period.

Any changes in these assessments may have a significant impact on revenue and deferred revenue.

Dealer incentives

Telkom provides incentives to its retail payphone card distributors as trade discounts. Incentives are based on sales volume and value. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Vodacom acts as a principle in its relationship with its dealers and service providers. Dealers and service providers are not permitted to purchase and resell Vodacom airtime, they simply pass on to the customer, the airtime that arises from the customer's use of the Vodacom network.

The role of the dealers and service providers is to undertake sales and marketing of airtime services, including connection and renewal of contract customers and sales to pre paid customers, and certain administrative services in relation to customers connected to the Vodacom network, such as sales force and customer care and billing of individual customers for which they are compensated by Vodacom. In effect, Vodacom has simply outsourced these functions, which they would otherwise have performed internally, incurred and recorded as expenses, and the contract between Vodacom and their dealers and service providers specifies what these functions are and how they will be compensated by incentive commissions.

Vodacom pays amounts to its service providers and dealers for the ongoing administration of its customers on a monthly basis.

The following incentive commissions are also paid by Vodacom to its dealers and service providers:

Contract connection and retention incentive commissions

Contract products that may include deliverables such as a handset and 24 month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost and commissions paid to service providers and dealers that are applicable to these identified deliverables are recognized based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Contract retention incentive commissions

These commissions are paid to service providers or dealers for all contract packages. Vodacom calculates the incentive paid monthly and the expense is recognized in the period it is earned by the service provider or dealer.

Prepaid incentive commissions

Prepaid products that may include deliverables such as a SIM card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost and commissions paid to service providers and dealers that are applicable to these identified deliverables are recognized on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Distribution incentive commissions

These commissions are paid to service providers or dealers to maintain and increase their loyalty to, and exclusivity with, Vodacom. These commissions are deferred and expensed over the contractual relationship period.

Handset incentive commissions

These incentives are offered by Vodacom to dealers who purchase phones from Vodacom to provide to customers, which are recorded as a net against revenue.

Item 6. Directors, Senior Management and Employees

DIRECTORS AND SENIOR MANAGEMENT

Directors and Senior Management of Telkom

Directors of Telkom

The management of Telkom is vested in its board of directors, which consists of eleven members. In accordance with Telkom's articles of association, the Government, as the holder of the class A ordinary share, and the Public Investment Corporation, as the beneficial holder of the class B ordinary share, are entitled to appoint directors based on the percentage of the issued ordinary shares owned by them. As of the date hereof, the Government is entitled to appoint five directors, including two executive directors, and the Public Investment Corporation is entitled to appoint one executive or non-executive director to Telkom's board of directors. Telkom's shareholders are entitled to appoint, in a general meeting, that number of directors, if any, that are not appointed by the holder of the class A ordinary share, the holder of the class B ordinary share or the board of directors. The shareholders in a general meeting are not entitled to fill a vacancy created by a director appointed by either the holder of the class A ordinary share or the class B ordinary share. If, as of March 4, 2011, the class A ordinary share and class B ordinary share have not otherwise been converted into ordinary shares under the terms of Telkom's articles of association, they will be so converted and the rights of the Government and the Public Investment Corporation as holders of the class A ordinary share and class B ordinary share, respectively, including their rights to appoint members of Telkom's board of directors will be terminated.

The chief executive officer is Telkom's most senior executive and the exercise of his authority is subject to the authority and direction of the board of directors. Telkom's articles of association provide that the chief executive officer shall be an executive director nominated and appointed at least every three years by the board of directors, after consultation with the Government, for so long as it is a significant shareholder. Pursuant to Telkom's articles of association, the board of directors is required to meet at least once a quarter.

Significant Shareholder

Pursuant to Telkom's articles of association, a significant shareholder is any person that holds either a class A ordinary share or a class B ordinary share and at least 15% of Telkom's issued ordinary shares, subject to adjustment to reflect additional issuances of ordinary shares by Telkom after March 4, 2003, provided that the percentage will not be lower than 10%.

Sale of Thintana shares and current shareholding

Thintana Communications sold a 14.9% interest in Telkom to South African and certain international institutional investors in June 2004. Following the completion of this sale, Thintana Communications beneficially owned a 15.1% interest in Telkom, including the class B ordinary share, and remained a significant shareholder. In November 2004 Thintana Communications announced that it sold its remaining 15.1% interest in Telkom, including its class B ordinary share, to the Public Investment Corporation, an investment management company wholly owned by the South African Government. Following the sale by Thintana Communications, all of Thintana Communications' representatives on Telkom's board and its management designees were replaced.

As of June 30, 2006, the Public Investment Corporation beneficially owned 8.6% of Telkom's issued and 9.0% of Telkom's outstanding ordinary shares and the class B ordinary share that it had acquired from Thintana Communications, plus an additional 7.5% of Telkom's issued and 7.9% of Telkom's ordinary shares that it had acquired in the market, and the Elephant Consortium beneficially

owned 6.9% of Telkom's issued and 7.2% of Telkom's outstanding ordinary shares. The Public Investment Corporation is not a "significant shareholder" of Telkom, however, it is entitled to appoint one executive or non-executive director to Telkom's board of directors, as the holder of the class B ordinary share. As of June 30, 2006, the Government of the Republic of South Africa owned 38.0% of Telkom's issued and 39.8% of Telkom's outstanding ordinary shares, plus the class A ordinary share, and is entitled to appoint five directors, including two executive directors, to Telkom's board of directors and is the only "significant shareholder" of Telkom.

Directors

The following resignations and appointments to the Telkom Board of Directors occurred since April 1, 2005:

Resignations	**Date of resignation**
A Ngwezi	June 29, 2005
SE Nxasana	August 31, 2005
TCP Chikane	June 19, 2006
Appointments	**Date of appointment**
PSC Luthuli	July 29, 2005
LRR Molotsane	September 1, 2005
KST Matthews	June 19, 2006

The following are Telkom's directors as of March 31, 2006. All of Telkom's directors are citizens of the Republic of South Africa.

Name	Year of Birth	South African Business Address	Position	Expiration of Term of Office	Year of Appointment
Nomazizi Mtshotshisa (1)	1944	101 Devon House 20 Georgian Crescent Hampton Office Park Bryanston 2021	Chairman of the Board; Non-executive Director	2008	2002
Papi Molotsane	1959	Telkom Towers North 152 Proes Street Pretoria, 0002	Chief Executive Officer; Executive director	2008	2005
Dumisani Tabata (1)	1955	269 Oxford Road, Ilovo, 2196	Non-executive Director	2007	2004
Yekani Tenza (1)	1957	5th Floor, Carlton Centre, 150 Commissioner Street, Johannesburg, 2001	Non-executive director	2007	2004

Name	Year of Birth	South African Business Address	Position	Expiration of Term of Office	Year of Appointment
Thabo Mosololi (2)	1969	Palazzo Towers East, Montecasino Boulevard, Fourways, 2055	Non-executive director	2007	2004
Lazarus Zim (2)	1960	44 Main Street, Johannesburg, 2001	Non-executive director	2007	2004
Marius Mostert (1)	1959	JGM House 5th Floor 72 Grayston Drive Sandton 2196	Non-executive director	2007	2004
Thenjiwe Chikane (1)(3)	1965	Mulberry Office Park, Broadacres Drive, Fourways, 2155	Non-executive director	2007	2004
Tshepo Mahloele (4)	1967	Glenfield Office Park Block C 1st Floor Sprite Avenue Faerie Glen, 0043	Non-executive director	2007	2004
Sibusiso Luthuli (2)	1973	14 Crompton Street, Pinetown, 3600	Non-executive director	2008	2005
Brahm du Plessis (2)	1955	41 St. John Road Houghton, 2041	Non-executive director	2007	2004
In addition, the following director was appointed to the board on June 19, 2006:					
Keitumetse Matthews (1)	1951	Shop G4, Richmond Centre, Main Road, Plumstead, Cape Town, 7800	Non-executive director	2009	2006

(1) Government representative.
(2) Independent.
(3) Resigned June 19, 2006.
(4) Public Investment Corporation representative.

Nomazizi Mtshotshisa was appointed to the board on August 1, 2002. Ms. Mtshotshisa is a business woman with interests in the financial services, mining and energy sectors. She has served as national director of the National Association of Democratic Lawyers, which focuses on human rights and transformation in the administration of justice. She is chairman of the Chris Hani Baragwanath Reconstruction Trust, Majweng Resources (Mining) and Eco-Electrical (Pty) Limited. Ms. Mtshotshisa also serves as director in Women's Development Micro Finance, Mvelaphanda Resources, Grinrod Limited and SA Black Women Investment Holdings. Ms. Mtshotshisa holds a B. Curis degree from the University of South Africa.

Papi Molotsane was appointed to the board and as chief executive officer in September 2005. Prior to joining Telkom, he was the Group Executive of Transnet from February 2003 to August 2005 and chief executive officer of Fedics from January 1999 to January 2003. Mr. Molotsane has a broad-based professional background in engineering, systems, operations, sales, marketing and human resources. Mr. Molotsane is currently a director of SA America's Cup Challenge. Previously he acted as a director of Arivia.kom, and Fike Investment (Pty) Limited. Mr. Molotsane has a Bachelor of Science in Business Services, a Bachelor of Engineering Technology and Master of Science in Business Administration. Mr. Molotsane also completed the Stanford Executive Program in the USA. Mr. Molotsane is also a director of Vodacom.

Dumisani Tabata was appointed to the board on September 20, 2004. Mr. Tabata is a director and founding member of Smith Tabata Incorporated. He was admitted as an attorney in 1984 and specializes in constitutional litigation and administrative law. Mr. Tabata has acted as a High Court Judge and has served on the executive board of National Association of Democratic Lawyers. He is chairman of STRB Attorneys in Johannesburg, deputy chairman of the ABSA regional board (Eastern Cape), a member of ABSA board (Commercial Bank) and a director of Smith Tabata Buchanan Boyes. Mr. Tabata holds a Bachelor of Procuration LLB.

Yekani Tenza was appointed to the board on September 20, 2004. Mr. Tenza is the executive chairman of Virtualcare Pharmacies (Pty) Limited. He is also chairman of IME Actuaries and Consultants. He has more than 15 years business experience ranging from manufacturing industry to the financial sector, particularly in the formulation and implementation of strategy. He has extensive experience in the healthcare sector having been the executive director of Medscheme Holding (then, the largest medical scheme administrator in South Africa). He is the former chief executive officer of Bonitas Medical Aid Fund and served as President and chief executive officer of Foskor Limited (largest producer of phosphoric acid in South Africa). He is a current non-executive director of the Gas Corporation of South Africa (iGas) and a former director of PetroSA Limited. Mr. Tenza holds a Bachelor of Commerce Bachelor of Accounting Science (Honours) and a MBA and he is a Certified Public Accountant (USA).

Thenjiwe Chikane was appointed to the board on September 20, 2004. Ms. Chikane has served as the chief executive officer at MGO Consulting since 2003, having joined them from the Department of Finance where she was head of Finance & Economic Affairs, Gauteng. Ms. Chikane is chairman of SITA, a board member at DBSA, PetroSA Limited and is a member of the audit committees of Poslec. She is currently a member of SAICA (South African Institute of Chartered Accountants) and ABASA (the Association of Black Accountants of South Africa). She has served on various other bodies, such as the UNISA Transformation Forum. Ms. Chikane is a Chartered Accountant. Ms. Chikane resigned from the board on June 19, 2006.

Thabo Mosololi was appointed to the board on October 15, 2004. Mr. Mosololi has been the financial director of Tsogo Sun Gaming since 2002. His expertise spans management consulting, financial re-engineering and strategy development. He is a member of SAICA and ABASA. In 1999, Mr. Mosololi was appointed by the Minister of Finance to the Financial Services Board Insider Trading Directorate. In 2001, Thabo was appointed as a commissioner on the Fiscal & Financial Commission. He serves as chairman of the Board of Trustees for the Education Foundation and NGO involved in the Curriculum Development and policy research on education in South Africa. Mr. Mosololi holds a Diploma in Project Management, MAP, EDP and is a chartered accountant.

Lazarus Zim was appointed to the board on October 15, 2004. Mr. Zim has served as the chairman of Kumba Resources Limited since February 2004 and serves on the boards of Anglo-American SA Limited, AngloGold Ashanti Limited, Mondi SA Limited and Sanlam Limited. Previously, he was the chief executive officer of Anglo American Corporation of South Africa Limited from February 2005 until April 2006. Mr. Zim brings in-depth knowledge of the African telecommunications markets as he previously worked as the managing director of MTN International and as an executive director of MTN Group. In this role he was responsible for operations in Nigeria, Cameroon, Uganda, Swaziland and Rwanda and Mauritius. Prior to this, he was managing director of M-Net and chief executive officer of MIH South Africa. Mr. Zim holds a Bachelor of Commerce (Honours) and a Masters in Commerce.

Marius Mostert was appointed to the board on September 20, 2004. Dr. Mostert is the group financial director of Decillion Limited and is responsible for its South African operations. Prior to joining Decillion, Dr. Mostert was financial director of PSG Investment Bank and executive vice president, professional services at the Industrial Development Corporation. Dr. Mostert holds a Bachelor of Commerce (Cum Laude), Bachelor of Commerce (Honours) (Investment Management), MBA (Cum Laude), Doctorate in Commerce and is a chartered accountant. Dr. Mostert is also a director of Vodacom.

Tshepo Mahloele was appointed to the board on November 29, 2004. Mr. Mahloele has extensive experience in corporate and project finance. Mr. Mahloele currently leads the Pan-African infrastructure development fund being established by the Pubic Investment Corporation. Mr. Mahloele was head of corporate finance at the PIC and Isibaya Fund from August 2003 to January 2006. He was previously a private sector investments manager at DBSA and has worked for the Commonwealth Development Corporation, where he was involved in the capital funding for infrastructure projects.
Mr. Mahloele is a non-executive director of Bakwena Platinum Corridor Concession. Mr. Mahloele holds a Bachelor of Procurationis.

Brahm du Plessis was appointed to the board on December 2, 2004. Mr. du Plessis has been a practicing advocate at the Johannesburg Bar since 1987, specializing in intellectual property law. Prior to that he was a senior lecturer in Roman-Dutch Law at the University of Cape Town. He was a founder member of the CDRT (Community Dispute Resolution Trust) and is past chairman of the Johannesburg branch of NADEL. He has published a law journal article on the Contracts in Restraint of Trade in Roman and Roman-Dutch Law. Brahm is also a member of Advocates for Transformation. Mr. du Plessis holds a Bachelor of Arts, LLB and LLM.

Sibusiso Luthuli was appointed to the board on July 29, 2005. Mr. Luthuli is the managing director of Ithala Limited, a position he was appointed to in July 2004. Prior to that he was finance director of Ithala Limited from January 2004 to June 2004. Other positions Mr. Luthuli held include that of executive manager at Nedbank Corporate from April 2000 to December 2003. He is non-executive chairman of Enaleni Pharmaceuticals Limited, chairman of the University of KwaZulu-Natal Audit Committee, a member of the University of Kwa Zulu Natal Council, director of Richards Bay Industrial Development Zone (IDZ) Company and member of Thekweni Municipality Audit Committee. Mr. Luthuli holds a Bachelor of Commerce degree from the University of Zululand, a post graduate diploma in Accountancy from the University of Durban Westville, and is a qualified chartered accountant.

Keitumetse Matthews was appointed to the board on June 19, 2006. Ms. Matthews is a businesswoman and has been a member of Keida Children's Books CC since April 2006. Ms. Matthews was chief legal advisor for the South African Broadcasting Corporation from March 2002 to September 2005. In April 2000, she was appointed special advisor to the Minister of Communications until February 2002. Other positions that Ms. Matthews has held include that of legal advisor at Midi Television, housing lawyer at the London Borough of Lambert Legal Services and copyright lawyer at British Broadcasting Corporation. Ms. Matthews is a Barrister-at-Law and also holds a Bachelor of Arts (Honours) degree.

Alternate directors of Telkom

No alternative directors have been appointed as of the date hereof.

Senior management of Telkom

The following are members of senior management of Telkom as of March 31, 2006:

Name	Year of Birth	Position	Year of Employment
Papi Molotsane[1]	1959	Chief Executive Officer	2005
Kaushik Patel	1962	Chief Financial Officer	2000
Reuben September	1957	Chief Operating Officer	1977
Wallace Beelders	1959	Chief Sales and Marketing Officer	1977
Thami Msimango	1966	Chief Technical Officer	1984
Mandla Ngcobo	1960	Chief Corporate Affairs	1998
Motlatsi Nzeku	1961	Chief Information Officer	1994

(1) Biography set forth above.

The business address of each of Telkom's executive officers is Telkom Towers North, 152 Proes Street, Pretoria, South Africa 0002.

Kaushik Patel was appointed chief financial officer in January 2004. He joined Telkom and served as deputy chief financial officer since December 2000. Prior to joining Telkom, he served as financial director for Teba Bank Limited from April 1999 to November 2000 and finance executive for the African Bank Limited since March 1998. He holds a Bachelor of Accounting Science (Honours) degree from the University of South Africa and is a Chartered Accountant (South Africa). Mr. Patel is also a non-executive director of TDS (Pty) Limited.

Reuben September was appointed chief operating officer in September 2005. Prior to this appointment, he served as chief technical officer from May 2002 and as managing executive of technology and network services from March 2000. He has worked in various engineering and commercial positions in Telkom since 1977. He is a member of the Professional Institute of Engineers of South Africa (ECSA) and holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Cape Town. Mr. September is also a director of Vodacom.

Wallace Beelders was appointed chief sales and marketing officer in December 2005. He joined Telkom in 1977 and previously held the position of managing executive for corporate, key and global markets from October 2004 to November 2005. Previously, Mr. Beelders was managing executive of international and special markets from December 2000 to September 2004. He holds a Masters Diploma in Technology from the Pretoria Technikon.

Thami Msimango was appointed chief technical officer in September 2005. Mr. Msimango joined Telkom in 1984 and has held a number of positions in Telkom. Previously, he was managing executive of technology and network services from July 2003 to September 2005 and executive Technology, Direction and Integration from June 2002 to June 2003. Mr. Msimango has been involved in the information and communication technology sector for the past 21 years beginning his career in the former Department of Posts and Telecommunications in 1984. Mr. Msimango has taken a number of management programs at various higher education institutions. Mr. Msimango is also a non-executive director of Swiftnet (Pty) Ltd.

Mandla Ngcobo was appointed as chief corporate affairs officer in September 2005. Previously, he was the group legal executive from September 2000 to August 2005. Mr. Ngcobo is an admitted attorney of the High Court. Prior to joining Telkom he was in private practice in Durban and Johannesburg for approximately ten years. Mr. Ngcobo qualified with an LL.B degree from Natal University in 1985 and in 2001 graduated with an L.M. in Company Law at Wits University. Mr. Ngcobo is a trustee of the Telkom Pension Fund. He is also a past General Secretary of the Black Lawyers Association, Gauteng Branch. Mr. Ngcobo has served as a non-executive director at Brait South Africa following the acquisition of a 26% interest of Brait by Sithongo Consortium. Mr. Ngcobo is also a director of Representative Investments (Pty) Limited which is part of the Sithongo consortium. He also sits on the Brait Audit Committee. Mr. Ngcobo is a former member of the SAFA 2010 World Cup Board and is currently a member of the remuneration sub-committee of the 2010 World Cup Local Organizing Committee.

Motlatsi Nzeku was appointed chief information officer in March 2006. Previously, he was group executive of procurement since November 2004 and managing executive of customer services from April 2001 to October 2004. He holds a Bachelor of Science in Mathematics and Physics and a Bachelor of Engineering degree.

There are no family relationships between any of Telkom's directors or members of senior management.

Senior Management of Vodacom

The following are members of senior management of Vodacom as of March 31, 2006:

Name	Year of Birth	Position	Year of Employment
Alan Knott-Craig	1952	Chief Executive Officer of Vodacom Group	1993
Leon Crouse	1953	Chief Financial Officer of Vodacom Group	1993
Shameel Aziz Joosub	1971	Managing Director of Vodacom South Africa.	1994
Pieter Uys	1962	Chief Operating Officer of Vodacom Group	1993

The business address of each of Vodacom's executive officers is Vodacom Corporate Park, 082 Vodacom Boulevard, Vodavalley, Midrand, South Africa.

Alan Knott-Craig has served as a managing director of Vodacom (Pty) Limited since 1993 and chief executive officer of Vodacom Group since October 1996. Prior to 1993, Mr. Knott-Craig was the senior general manager of mobile communications at Telkom until 1993, when he left to join Vodacom. Mr. Knott-Craig is also a director of several Vodacom subsidiaries. Mr. Knott-Craig holds a Bachelor of Science degree in Electrical Engineering cum laude from the University of Cape Town and a Master of Business Leadership degree from the University of South Africa and was awarded an honorary Doctorate in Business Leadership from the University of South Africa in 2006. He was inducted as one of the eight Gold Members of the GSM Association's 2001 inaugural "Roll of Honour" for his contribution to bringing mobile telephone to South Africa. He serves as a Commissioner on the Presidential National Commission on Information Society & Development for ICTs.

Leon Crouse has served as chief financial officer and group finance director of Vodacom Group since October 1996. Prior to 1996, Mr. Crouse served as Vodacom's general manager of Finance since Vodacom's inception in 1993. Mr. Crouse is also a director of several Vodacom subsidiaries. Mr. Crouse holds a Bachelor of Commerce degree and a Certificate in the Theory of Accounting from the Nelson Mandela Metropolitan University of Port Elizabeth and is a Chartered Accountant (South Africa).

Shameel Aziz-Joosub was appointed as managing director of Vodacom (Pty) Limited on April 1, 2005. He has served as a director and as the managing director of Vodacom Service Provider Company (Pty) Limited since September 2000. Prior to September 2000, Mr. Aziz-Joosub worked in Vodacom's finance department since 1994 and was managing director of Vodacom Equipment Company (Pty) Limited, the handset distribution company in the Vodacom Group, before merging it with Vodacom Service Provider Company. Mr. Aziz-Joosub also serves as director of Vodacom Group (Pty) Limited. Mr. Aziz-Joosub holds a Bachelor of Commerce (Honors) degree from the University of South Africa and holds a Masters of Business Administration degree from the University of Southern Queensland, Australia, and is an Associated General Accountant and Commercial and Financial Accountant (South Africa).

Pieter Uys has served as chief operating officer of Vodacom Group since April 2004 and managing director of Vodacom (Pty) Limited from December 2001 to March 2005. Mr. Uys holds a Bachelor of Science degree in Engineering and a Masters in Engineering degree from the University of Stellenbosch and a Master of Business Administration degree from the Stellenbosch Business School. Mr. Uys joined Vodacom in 1993 as a member of the initial engineering team.

Reserved Matters

Pursuant to Telkom's articles of association, for so long as the Government is a significant shareholder, neither Telkom nor any of its subsidiaries may take action with respect to certain reserved matters unless authorized by the board, if, and to the extent that, the matters are not within the scope of the exclusive powers and authority delegated to the operating committee referred to below. In addition, the authorizing resolution of the board relating to any Government reserved matter must have received the affirmative vote of at least two of the directors appointed by the Government. The following are Government reserved matters:

- the approval or amendment of Telkom's strategic objectives or those of any subsidiary;
- any determination of or amendment to Telkom's management structure or schedule of authorizations granted by the board to management;
- prior to May 8, 2004, any determination by the board of directors with respect to the scope or revocation of the exclusive powers and authority of the operating committee or the human resources review committee referred to below, and at any time, the countermanding, amending or supplementing of any decision or action made or taken by the operating committee or the human resources review committee before May 8, 2004;
- the formation of any committee of, or the delegation of any authority to such committee, by the board of directors, other than as expressly set out in the articles of association;
- an increase or reduction in the issued share capital of Telkom or its subsidiaries;
- any issue, conversion or allotment of shares or securities by Telkom or any subsidiary;
- the approval or making of the dividend policy from time to time and the declaration or distribution of any dividends by Telkom or by its subsidiaries;
- any material change in Telkom's business or that of its subsidiaries;
- the incurrence, creation or assumption by Telkom of any indebtedness which would cause the debt/equity ratio of Telkom, or the Telkom Group on a consolidated basis, to exceed 1.00;
- any merger or consolidation involving Telkom or any transfer of any of Telkom's assets or liabilities or those of its subsidiaries where the consideration or purchase price, as the case may be, exceeds minimum thresholds;
- the execution, renewal, amendment or termination of any contract between Telkom or its subsidiaries and any shareholder who owns in excess of 10% of the ordinary shares, unless the Government has an interest in the contract in question that conflicts with the interest of Telkom or the applicable subsidiary;
- the establishment by Telkom of any subsidiary;
- any change to the name under which Telkom or any subsidiary does business;
- any change in Telkom's financial or tax year;
- any winding-up or liquidation of Telkom or any of its subsidiaries;
- after May 7, 2004 and subject to the audit and risk management committee's exclusive authority referred to below, the appointment of Telkom's auditors insofar as the South African Companies Act, 61 of 1973, requires such appointment to be made by directors;

- any material alteration of the terms of any employee share ownership scheme approved by a general meeting; and
- any change in the number of directors making up the board.

Telkom’s articles of association provide that the articles relating to these reserved matters will fall away on March 4, 2011.

COMPENSATION

Compensation of Directors

The following table sets forth in Rands, the cash and non-cash compensation, paid by Telkom to its executive and non-executive directors in the year ended March 31, 2006:

	Fees ZAR	Remuneration ZAR	Performance bonus ZAR	Fringe and other benefits ZAR	Total ZAR
2006					
Emoluments per director:					
Non-executive	**2,969,158**	**–**	**–**	**–**	**2,969,158**
NE Mtshotshisa	759,500	–	–	–	759,500
TCP Chikane (resigned June 19, 2006)	181,022	–	–	–	181,022
B du Plessis	254,391	–	–	–	254,391
TD Mahloele	223,227	–	–	–	223,227
TF Mosololi†	230,809	–	–	–	230,809
M Mostert	308,272	–	–	–	308,272
A Ngwezi (resigned June 29, 2005)	47,727	–	–	–	47,727
DD Tabata	323,022	–	–	–	323,022
YR Tenza	349,022	–	–	–	349,022
PL Zim	123,809	–	–	–	123,809
PSC Luthuli (appointed July 29, 2005)	168,357	–	–	–	168,357
Executive	–	2,186,460	7,070,262	2,990,865	12,247,587
SE Nxasana* (resigned August 31, 2005)	–	935,713	3,627,689	2,081,190	6,644,592
LRR Molotsane* (appointed September 1, 2005)	–	1,250,747	3,442,573	909,675	5,602,995
Total emoluments – Paid by Telkom	**2,969,158**	**2,186,460**	**7,070,262**	**2,990,865**	**15,216,745**

* Included in fringe and other benefits is a pension contribution for SE Nxasana and LRR Molotsane of R121,643 (2005: R278,040; 2004: R242,430) and R162,597 (2005: R0), respectively, paid to the Telkom Retirement Fund. Also included in fringe and other benefits is a termination settlement of R1,574,514 paid to SE Nxasana.

† Paid to Tsogo Sun Limited.

In the year ended March 31, 2006, the aggregate consolidated compensation of Telkom's directors and senior management (22 persons), paid or accrued, was R58.2 million which includes remuneration, bonuses, termination, fringe and other benefits paid to directors and members of senior management who resigned or were replaced during the year.

The Telkom Group set aside or accrued R1.3 million to provide pension, retirement and similar benefits for its directors and senior management (22 persons) in the year ended March 31, 2006, including directors and members of senior management who resigned or were replaced during the year.

Bonus and Profit Sharing

Senior management and executive directors participate in the Telkom top management incentive scheme. The incentive scheme consists of two components, namely the team award and the

individual award. The team award constitutes 80% and the individual award 20% of the overall award. The team award is based 60% on Telkom financial drivers and 40% on Telkom performance drivers. The individual award is based on the performance of the individual. Payment of bonuses for the 2006 financial year took place in June 2006.

Remuneration of Non-Executive Directors

Fees for Telkom's non-executive directors are determined by the board of directors based on market practice, within the restrictions contained in Telkom's articles of association. Telkom's non-executive directors receive no other pay or benefits other than directors' fees, with the exception of reimbursement of expenses incurred in connection with their directorships. The non-executive directors do not participate in the share scheme, bonus scheme or incentive plans outlined herein and are not eligible for pension scheme membership.

Loans

Telkom has not made any loans to any of its directors or senior management referred to herein.

Service Agreements

Telkom has entered into a service agreement with Papi Molotsane. The service agreement for Mr. Molotsane has a three year term with a six months' notice period by either party, which will end on August 31, 2008. All other members of the executive committee have indefinite service employment contracts with a three month notice period by either party.

Retention Agreement

Mr. Msimango has a retention agreement with the company until October 2006.

Incentive Plans

At Telkom's Annual General Meeting held on January 27, 2004, Telkom's shareholders approved a conditional share plan for all employees. A maximum of 22,281,272 ordinary shares may be made available for purposes of the plan, representing 4% of Telkom's issued ordinary share capital as of March 31, 2006. Allocation to management employees in terms of this plan shall not exceed 2% of Telkom's issued ordinary share capital. The remaining 2% is reserved for the remainder of the staff. No one participant in the plan may acquire more than 0.05% of Telkom's issued ordinary share capital.

The board may determine the maximum number of shares that will be awarded to each participant in a conditional contract. Each conditional contract obligates Telkom to allot and issue to the employee or procure the transfer to the employee, free of cash, the number of shares awarded to the employee, subject to certain performance criteria applicable to him or her being met within a specified period. The number of shares ultimately awarded to the employee, however, is dependent upon the extent to which the employee meets certain performance criteria and, in any event, must not exceed the number awarded. For a management employee, the performance criteria must be met over three years. For a non-management employee, the performance criteria must be met for one-third of his or her shares at the end of two years, for the next third at the end of three years and for the last third at the end of four years, each from the date of his or her conditional contract. At the end of these periods, the rights of the employees will vest, provided that each performance criterion has been met and the employee is still a Telkom employee. Subject to the board's discretion, if the employment is terminated due to death, other than suicide, workforce reduction where he or she does not receive a voluntary severance package, outsourcing, normal retirement or workforce reduction due to ill health, his or her rights will remain unaffected; otherwise, the employee will lose his or her rights to acquire any shares apart from the rights that have already vested. Subject to the board's discretion, the board may decide to make a cash payout based on certain criteria for employees who accept voluntary

service packages pursuant to the workforce reduction program. A Telkom employee cannot receive any dividends for awarded shares or be entitled to vote, with respect to awarded shares until their rights to shares are vested. In addition, a Telkom employee may not assign any of his or her rights or obligations under this plan.

On March 17, 2004, the Telkom Board of Directors approved guidelines for the allocation of shares. The first allocation was made based on the following:

- the Telkom share price on the JSE based on the last ten trading days prior to March 30, 2004; and
- the Telkom's final financial results for the 2004 financial year as measured by the team award.

For officers, executives and managers, the number of ordinary shares was based on a percentage of the individual's total remuneration package and the individual's performance assessed through Telkom's performance enhancement process. The following illustrates how individual performance influences the number of shares:

Performance	% award
Did not meet targets	0%
Met all targets	100%
Exceeded all targets	100%+*

* Subject to Board discretion

For employees in Telkom's collective bargaining unit, the number of ordinary shares will be based on a percentage applied to the weighted average remuneration per job level, regardless of the individual's performance as assessed through Telkom's performance and development management system. However, the number of ordinary shares will depend on a sliding scale of the Telkom financial performance, as measured by Telkom's gain-sharing plan. The following table illustrates the sliding scale:

Overall % achievement of Telkom financial targets	% award
Less than 90%	0%
Between 90% and 95%	50%
Between 95.1% and 99.9%	75%
100% and above	100%+*

* Subject to Board discretion

On June 23, 2005, the Telkom board of directors approved the second allocation of shares under the conditional share plan. The second allocation was made based on the following:

- the Telkom share price on the JSE based on the last ten trading days prior to the allocation date of June 1, 2005;
- the individual performance assessment of employees on the management levels for the 2005 financial year;
- the total remuneration packages of employees as at April 1, 2005; and
- Telkom's final financial results for the 2005 financial year.

The allocation of shares under the conditional share plan for the 2006 financial year will be submitted to the September 2006 board meeting for approval.

Government Option Grants

On March 4, 2003, the Government granted share options to purchase up to 11,140,636 of its ordinary shares, representing 2% of Telkom's issued and outstanding ordinary share capital, through the Diabo Share Trust, established for the benefit of:

- persons employed by Telkom at 9:00 a.m. (S.A. time) on March 4, 2003; and
- former employees, who were employed by Telkom on or after October 1, 1999 up to 8:59 a.m. (S.A. time) on March 4, 2003, including deceased estates of such employees. Employees who resigned voluntarily or were dismissed on grounds of misconduct, fraud or other grounds justifying summary dismissal at common law before 8:59 a.m. (S.A. time) on March 4, 2003 were excluded from participation in this scheme.

The options entitled these persons to acquire ordinary shares from the Government at R33.81 per share, which is the price at which Thintana Communications invested in Telkom in 1997, plus any stamp duty, brokerage and related costs payable on the transfer of these ordinary shares. The shares will be exercisable over a period of three years in four equal tranches. The four tranches were exercised in September 2003, March 2004, March 2005 and March 2006. These persons were also entitled to elect to have some or all of the shares disposed of for their benefit. Such persons did not need to remain employed with Telkom after 9:00 a.m. (S.A. time) on March 4, 2003 in order to continue participating in the scheme and persons who were employed by Telkom after 9:00 a.m. (S.A. time) on March 4, 2003 did not otherwise have the right to participate in the scheme.

BOARD PRACTICES

Corporate Governance Statement

The board is committed to ensuring that the affairs of Telkom are conducted with integrity and in accordance with principles set out in the King Report on Corporate Governance 2002, or King II, and the Sarbanes Oxley Act of 2002.

Compliance with the King Code and JSE Listings Requirements

By virtue of its listing on the JSE, Telkom is obliged to comply with the Code of Corporate Practices and Conduct contained in King II and in accordance with the new JSE Listings Requirements which came into effect on September 1, 2003. Telkom is required to disclose the extent of its new compliance with King II and provide reasons for non compliance.

Telkom complies in all material respects with the principles of King II. While it acknowledges the importance of good governance, the Board is aware that Telkom does not strictly comply with certain principles set out in King II. These areas of non compliance stem mainly from certain provisions in Telkom's articles of association framed to safeguard the interests of the two controlling shareholders, that at the time of the listing were the Government of the Republic of South Africa and Thintana Communications. In November 2004, Thintana Communications announced that it sold its entire remaining shareholding in Telkom, 15.1%, together with the class B share, to the Public Investment Corporation. We have been informed that the Public Investment Corporation's shareholding fell below 15% of Telkom's issued ordinary shares. As a result, it is no longer a "significant shareholder". The Government is now the sole "significant shareholder." The Government's reserved matters as a "significant shareholder" holding the class A ordinary shares were unaffected by the sale by Thintana Communications of its entire shareholding in Telkom. Most of the areas of non-compliance will be resolved by no later than March 5, 2011, when the provisions of Telkom's articles of association resulting in non-compliance with King II fall away or earlier if the "significant shareholders" shareholding falls below certain stipulated levels.

The board of directors

The board of directors comprised one executive and ten non-executive directors as of June 30, 2006. The Government and the Public Investment Corporation are the holders of the class A and class B ordinary shares, respectively. Based on their ordinary shareholding and their holding of the class A and class B shares, the Government is entitled to appoint five directors, including two executive directors, and the Public Investment Corporation is entitled to appoint one executive or non-executive director, to the board, as of June 30, 2006.

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

The roles of chairman and chief executive officer do not reside in the same person. The chairman is a non-executive director appointed by the class A shareholder, the Government, in consultation with the class B shareholder. The chief executive officer is appointed by the board on a renewable service contract, in consultation with each significant shareholder.

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

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

Telkom has a formal induction program for newly appointed directors and specific training is provided for audit committee members. The induction of newly appointed directors is conducted by the chairman and chief executive officer with input from the company secretary. Where a newly appointed director has no or limited board experience, the induction program is structured to meet the individual director's specific needs.

In terms of Telkom's articles of association, board decisions on certain specified matters require the affirmative vote of at least two of the class A shareholder directors, appointed by the Government.

The board encourages attendance at annual general meetings by the directors and members of management and a quorum of 75% of the 11 members is required for board meetings.

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

Directors' attendance of board meetings

Six scheduled board meetings and ten special meetings were held during the 2006 financial year. The following table presents the possible meetings based on the appointment and resignation of members.

	Scheduled		Special	
	Number of Meetings(1)	Attendance	Number of Meetings(1)	Attendance
Non-executive				
NE Mtshotshisa (Chairman)	6	6	10	10
TCP Chikane (resigned June 19, 2006)	6	2	10	5
TD Mahloele	6	4	10	7
M Mostert	6	6	10	7
A Ngwezi (resigned June 29, 2005)	2	2	2	0
DD Tabata	6	5	10	8
YR Tenza	6	5	10	10
B du Plessis	6	6	10	10
TF Mosololi	6	6	10	6
PL Zim	6	2	10	5
PSC Luthuli (appointed July 29, 2005)	4	4	6	4
Executive				
SE Nxasana (resigned August 31, 2005)	2	2	0	0
LRR Molotsane (appointed September 1, 2005)	4	4	5	5

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

Executive committee

The chief executive officer 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 licenses, 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.

The chief executive officer shall, in carrying out the powers set out above, be assisted by an executive committee. The chief executive officer is the chairman of the executive committee. The executive committee consists of seven members.

Decisions at meetings of the executive committee are taken by a majority vote of the members. In the event of an equality of votes, the chairman of the committee has a casting vote.

The following were the members of the executive committee as of June 30, 2006:

- LRR Molotsane (Chairman);
- KR Patel;
- RJ September;
- BMC Ngcobo;
- TG Msimango;
- W Beelders; and
- MJ Nzeku.

Members' attendance of executive committee meetings

Eight scheduled executive committee meetings and seven special meetings were held during the 2006 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of Meetings (1)	Attendance	Number of Meetings (1)	Attendance
Existing members				
LRR Molotsane (Chairman) (appointed September 1, 2005)	3	3	6	5
KR Patel	8	8	7	7
RJ September	8	8	7	7
BMC Ngcobo	8	8	7	6
TG Msimango (appointed September 6, 2005)	3	3	6	6
W Beelders (appointed September 19, 2005)	3	3	6	6
MJ Nzeku (appointed March 1, 2006)	1	1	3	3
Resignations				
SE Nxasana (resigned August 31, 2005)	5	5	1	1
GNV Magashula (resigned October 28, 2005)	5	5	1	1
NT Moholi (resigned November 30, 2005)	5	5	1	1
BB Williams (resigned November 30, 2005)	5	5	1	1

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

Audit and risk management committee

The audit and risk management committee comprises four non-executive directors. A non-executive director who is not the chairman of the board chairs the committee. No member of the audit and risk management committee may, other than in his or her capacity as a member of that committee, the board or any other committee of the board, accept any consulting, advisory or other compensatory fee from Telkom or any subsidiary of Telkom or be an affiliated person of Telkom or any subsidiary or vendor of Telkom. See Directors' Interest in note 38 of the Consolidated Financial Statements.

The responsibilities of the audit and risk management committee include, among other things, the following:

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

Telkom's audit and risk management committee adopted a pre-approval policy for services by external company auditors, which does not allow for certain services, including bookkeeping, financial system design, valuation services, actuarial services, internal audit outsourcing services and legal services not related to the audit. The committee also pre-approves proposed audit related services, tax services and other permissible services. The pre-approval policy requires all auditing and non audit services provided by Telkom's external auditors to be pre-approved by the audit and risk management committee. During the 2005 financial year, the committee pre-approved the engagement of the independent auditors to provide audit services for a three-year term. The chairman of the audit and risk management committee is the primary member of the audit and risk management committee that has the authority to pre-approve audit and non audit services outside of the meetings and, in his absence, any member of the audit and risk management committee.

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

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

The following are the members of the audit and risk management committee as of June 30, 2006:

- YR Tenza (Chairman);
- TF Mosololi;
- M Mostert; and
- PSC Luthuli.

Telkom's board of directors has determined that the chairman of its audit committee, Mr. Yekani Tenza, is the audit and risk management committee financial expert within the meaning of Item 16A. (b) and (c) of the requirements of Form 20-F of the SEC. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation, any duties, obligations or liability that are greater than the duties, obligations or liabilities imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. Mr. Tenza is a qualified certified public accountant.

The external auditors are invited when appropriate to attend the audit and risk management committee meetings.

Members' attendance of audit and risk management committee meetings

Four scheduled audit and risk management committee meetings and nine special meetings were held during the 2006 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of Meetings (1)	Attendance	Number of Meetings (1)	Attendance
Existing members				
YR Tenza (Chairman)	4	4	9	9
M Mostert	4	3	9	9
TF Mosololi	4	3	9	4
PSC Luthuli (appointed July 29, 2005)	3	3	7	6
Resignations				
A Ngwezi (resigned June 29, 2005)	1	1	1	0

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

Human resources review and remuneration committee

The human resources review and remuneration committee consists of a majority of non-executive directors and is chaired by the chairman of the board. The human resources review and remuneration committee reviews the terms upon which Telkom's executive directors and senior management are employed and compensated and upon which Telkom's non-executive directors and executive directors are compensated and makes recommendations to the board with respect to such matters. Actions of the human resources review and remuneration committee must be approved by a majority vote of its members. In the event of a tie, the chairperson of the human resources review and remuneration committee shall have a casting vote.

The following are members of the human resources review and remuneration committee as of June 30, 2006:

- NE Mtshotshisa (Chairman);
- LRR Molotsane;
- DD Tabata;
- TD Mahloele;
- B du Plessis;
- KST Matthews (appointed June 19, 2006); and
- CK Mokoena (non-director).

Members' attendance of human resources review and remuneration committee meetings

Four scheduled human resources review and remuneration committee meetings and three special meetings were held during the 2006 financial year. The following table presents the possible meetings based on appointment and resignation dates of members.

	Scheduled		Special	
	Number of Meetings (1)	Attendance	Number of Meetings (1)	Attendance
Existing members				
NE Mtshotshisa (Chairman)	4	4	3	3
LRR Molotsane (appointed September 1, 2005)	3	3	0	0
TD Mahloele	4	3	3	3
B du Plessis	4	4	3	3
DD Tabata	4	4	3	3
Ex-officio non-voting member				
CK Mokoena (Group Executive: Human Resources) .	2	2	0	0
Resignations				
SE Nxasana (resigned August 31, 2005)	1	1	0	0
GNV Magashula (resigned October 28, 2005)	2	2	0	0
TCP Chikane (resigned June 19, 2006)	4	2	3	3

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

Directors' remuneration

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

In determining specific remuneration packages for the chief executive officer and non executive directors, the human resources review and remuneration committee consults with the chairperson of the board, and is sensitive to the remuneration and employment conditions elsewhere in the Telkom Group. In doing so, performance related elements of the remuneration constitute a large proportion of the total remuneration package of the chief executive officer and are specifically designed to align his interests with those of shareholders and to give such executive directors incentives to perform at the highest level.

Should the service of any of Telkom's executive directors be terminated early, the human resources review and remuneration committee will tailor its approach in respect of compensation commitments to the circumstances of the case with the broad aim of avoiding rewarding poor performance, while dealing fairly with cases where departure is not due to poor performance.

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

Telkom's articles of association provide that the remuneration of the directors for their service as directors shall be determined by the directors, after taking into account the recommendations of the human resources review and remuneration committee. Non executive directors are not, as part of their remuneration, allocated shares in Telkom but may purchase shares in Telkom.

Directors' remuneration and interests are detailed in note 38 to the Telkom Group's consolidated annual financial statements included elsewhere herein.

Company secretary and professional advice

The directors have unrestricted access to the services and advice of the company secretary. Directors are entitled, after consultation with the chairman of the board, to seek independent professional advice about the affairs of Telkom at Telkom's expense.

The termination of the services of the company secretary is a matter to be decided by the board.

Directors' and officers' dealings

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

Outside the closed periods directors and officers of Telkom are required to obtain prior approval from the insider trading compliance officer before dealing in Telkom's securities. Where the chief executive officer needs to deal in Telkom's shares outside closed periods, the chairman must give the approval. Where the chairman needs to deal in Telkom's shares outside the closed periods, prior approval must be obtained from the insider trading compliance officer. Directors' dealings in Telkom's securities are published on SENS within the regulated timeframes. The SENS announcements that were published during the year are made available on the website www.telkom.co.za/ir. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Risk management

The Telkom Group has adopted a continuous, systematic enterprise-wide risk management process for assessing and monitoring its potential business and financial risks. As part of this process for the 2006 financial year, all the service organizations have reviewed all risks with an impact of R100 million and greater for Telkom at the residual value, which is the residual risk after mitigating controls have been considered. The components of the risk management system are designed to enable us to anticipate risks and to manage them carefully in the pursuit of our business goals. The principles, guidelines, processes and responsibilities of our internal control system have been defined and established to help ensure prompt and accurate accounting of all business transactions and to continuously provide reliable information about the Telkom Group's financial position for internal and external use. The board of directors continuously monitors treasury policies, risk limits and control procedures. The audit and risk management committee reviews the effectiveness of the risk management processes and reports regularly to the board.

The Telkom Group's risk exposure and management thereof is discussed in note 37 of the consolidated annual financial statements.

Financial statements

The board of directors is responsible for preparing the Telkom Group's financial statements. In this regard, it is the board's responsibility to present a balanced and understandable assessment of both interim and annual financial information as well as other price sensitive public reports, including any reports to ICASA and other information that Telkom is statutorily obliged to disclose.

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

Code of ethics

Telkom has adopted a business code of ethics that seeks to instill in its employees the spirit of fairness, respect and ethical standards in dealing with Telkom's customers, competitors, suppliers, investors, shareholders and communities to ensure that Telkom's integrity is not compromised.

Specific documentation to raise and maintain ethical awareness and to guide all levels of employees include the Telkom Insider Trading Policy, Telkom Acceptance of Directorships, Work Outside the Scope of Telkom Duties, as well as other Telkom policies, procedures and applicable laws as amended from time to time.

In business dealings on behalf of Telkom, employees are expected to avoid activities that might give rise to conflicts of interest. In view of this, certain responsibilities for management and all employees are clearly communications. Employees are expected to act in the exclusive interest of Telkom. Procedures have been put in place to deal with conflicts of interest where these arise in the course of employees' day-to-day activities, such as disciplinary action, suspension or even termination of employment and civil or criminal proceedings. Telkom has established a confidential hotline service to encourage and enable whistle blowing. As part of the business code of ethics, there is a policy to protect whistleblowers from discrimination and harassment. Telkom has also introduced fraud and management systems.

The business code of ethics is reviewed regularly to ensure that it keeps up with developments both inside and outside Telkom. The business code of ethics is published on Telkom's website at www.telkom.co.za/ir.

Information contained on Telkom's website or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Employment equity

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

The main objectives of this policy are to:

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

Relationship with shareholders

Telkom is and remains ready, when practical and legal, to enter into dialogue with shareholders and make such information publicly available to all shareholders. Telkom will make every effort to keep its shareholders intelligently informed. Telkom has established an investor relations function and an investor relations portal (www.telkom.co.za/ir) for communication with investors. Information contained on Telkom's investor portal is not a part of this annual report.

EMPLOYEES

Fixed-line Employees

The following table sets forth the number of our full time employees in our fixed-line segment.

	As of March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
Telkom	**32,358**	**28,972**	**25,575**	**(10.5)**	**(11.7)**
Network and technology	23,679	21,528	19,637	(9.1)	(8.8)
Marketing and sales	6,282	5,210	4,099	(17.1)	(21.3)
Support and other	2,397	2,234	1,839	(6.8)	(17.7)
Subsidiaries	576	572	581	(0.7)	1.6
Total	**32,934**	**29,544**	**26,156**	**(10.3)**	**(11.5)**

In addition to our full time employees, Telkom had 812 temporary employees on March 31, 2006. Our employees are represented by the Communication Workers Union, or CWU, and the Alliance of Telkom Unions, or ATU. comprising the South African Communications Union, or SACU, and the MWU-Solidarity Union. Some of our employees also belong to other unions that are not recognized by Telkom for collective bargaining purposes, including the Postal Union, the Society of Telkom Engineers, the South African Steel and Allied Workers Union and the United Association of South Africa. As of March 31, 2006, approximately 74% of our total Telkom employees were union members.

Telkom is a party to a collective agreement on substantive matters covering the terms and conditions of employment of its fixed-line unionized employees and other non-management employees in Telkom's bargaining unit, excluding our Telkom Directory Services and Swiftnet subsidiaries, with ATU and CWU for the period from April 1, 2006 to March 31, 2009. In addition, Telkom signed a new collective recognition agreement with ATU and CWU in mid-2004, designed to enhance the relationship between shop stewards and management. Trade unions have resisted workforce reductions and publicly opposed our privatization and have instituted and in the future could institute work stoppages to oppose changes in our shareholding structure or gain leverage in negotiating collective bargaining agreements. Approximately 23% of Telkom's employees participated in a work stoppage in March 2006 and approximately 31% of Telkom's employees participated in an additional work stoppage in April 2006 with respect to compensation issues, during which period Telkom received increased reports of sabotage, vandalism and other incidents.

A number of South African trade unions, including the trade unions of our employees, have close links to various political parties. In the past, trade unions have had a significant influence in South Africa as vehicles for social and political reform and in the collective bargaining process. Since 1995, South Africa has enacted various labor laws that enhance the rights of employees and have resulted in increased compliance costs.

These laws:

- confirm the right of employees to belong to trade unions;
- guarantee employees the right to strike, the right to picket and the right to participate in secondary strikes in prescribed circumstances;
- provide for mandatory compensation in the event of termination of employment due to redundancy;
- limit the maximum ordinary hours of work overtime;
- increase the rate of pay for overtime;

• require large employers, such as us, to implement employment equity policies to benefit previously disadvantaged groups and impose significant monetary penalties for non compliance; and

• provide for the financing of training programs by means of a levy grant system and a national skills fund.

We believe that investment in employee training and development is essential to implementing corporate cultural change and improving customer satisfaction. In order to improve the skill levels of our employees, we invested R400.1 million in employee training and development in the year ended March 31, 2006.

Leadership development continues to remain our primary priority, with specific focus on previously disadvantaged groups. We have launched a number of initiatives designed to train our employees and encourage employee retention.

Employee-related expenses are a significant component of our total fixed-line operating expenses. The number of Telkom employees declined by approximately 31,236 positions from March 31, 1997 through March 31, 2006. At March 31, 2006, we had 25,575 Telkom employees. In October 2002, Telkom and its recognized trade unions agreed to embark on a process of implementing alternative strategies and approaches to avoid and minimize job losses and to create new career opportunities for Telkom employees. In attempting to actively avoid involuntary separations as part of Telkom's workforce reduction program, Telkom concluded collective agreements with the ATU and CWU on February 3, 2005 and February 11, 2005, respectively, that position a revised approach focusing on utilizing a combination of voluntary separations and a reduction in other staff-related expenditure. During the 2007 financial year, Telkom entered into a three-year long-term agreement on wages and benefits with ATU and CWU until March 31, 2009. Telkom has placed a moratorium on employee reductions until March 31, 2007, subject to certain conditions, including re-training and re-skilling, "follow-the-job" initiatives, flexibility and mobility of employees and voluntary separation packages at the discretion and initiative of Telkom.

Mobile Employees

The following table sets forth the number of Vodacom's employees as of the dates indicated.

	As of March 31,			2005/2004	2006/2005
	2004	2005	2006	% change	% change
South Africa	3,848	3,919	4,305	1.8	9.8
Other African	761	1,074	1,154	41.1	7.4
Total[1]	**4,609**	**4,993**	**5,459**	**8.3**	**9.3**

(1) Vodacom had a total of 469, 183 and 280 temporary employees as of March 31, 2006, 2005 and 2004, respectively. Includes 100% of Vodacom's employees in the Democratic Republic of the Congo. Headcount excludes outsourced employees. Employees seconded to other African countries are included in the number of other African countries and excluded from Vodacom South Africa's number of employees.

Vodacom is an equal opportunity employer committed to empowerment and has developed an employment equity policy that is available to all employees. Vodacom's South African employees' participation in unions was approximately 10.2% as of March 31, 2006, approximately 13.3% as of March 31, 2005 and approximately 7.9% as of March 31,2004. Vodacom believes that the relationship between its management and its employees and labor unions is good.

SHARE OWNERSHIP

As of March 31, 2006, none of Telkom's directors had any beneficial or non-beneficial interest in any of Telkom's shares except as stated below:

Directors' shareholding	Beneficial		Non beneficial			% of Telkom Outstanding Shares
	Direct	Indirect	Direct	Indirect	Total	
2006						
Non-executive						
NE Mtshotshisa	–	–	–	88	88	*
TF Mosololi	455	–	–	–	455	*
Total	**455**	**–**	**–**	**88**	**543**	*
2005						
Executive						
SE Nxasana (resigned August 31, 2005)	367	802	–	267	1,436	*
Non-executive						
NE Mtshotshisa	–	–	–	88	88	*
TF Mosololi	455	–	–	–	455	*
Total	**822**	**802**	**–**	**355**	**1,979**	*

* Less than 1%.

As of March 31, 2006, none of Telkom's directors or senior management individually held more than 1% of Telkom's outstanding ordinary shares.

As of March 31, 2006, Telkom's directors and senior management (17 persons) collectively beneficially held 3,494 ordinary shares. In addition, as of March 31, 2006, Telkom's directors and senior management (17 persons) collectively held 153 share options issued through the Diabo share trust, which were transferred to such directors and senior management subsequent to March 31, 2006. The foregoing information does not include ordinary shares held by the Government or the Public Investment Corporation.

In June 2004, Telkom allocated 17,341 ordinary shares to Sizwe Nxasana, 5,534 ordinary shares to Kaushik Patel, 6,638 ordinary shares to Nombulelo Moholi, 6,549 ordinary shares to Reuben September, 4,251 ordinary shares to Mandla Ngcobo, 4,379 ordinary shares to Wallace Beelders, 3,755 ordinary shares to Thami Msimango and 4,913 ordinary shares to Motlatsi Nzeku under its conditional share plan. In June 2005, Telkom allocated a further 12,328 shares to Sizwe Nxasana 4,733 ordinary shares to Kaushik Patel, 5,450 ordinary shares to Reuben September, 3,489 ordinary shares to Mandla Ngcobo, 3,489 ordinary shares to Wallace Beelders, 3,489 ordinary shares to Thami Msimango and 3,667 ordinary shares to Motlatsi Nzeku under its conditional share plan. These shares do not vest until three years from the date of grant subject to company performance.

The Telkom board approved the acceleration of the vesting of 29,669 shares that had been granted to Mr. Sizwe Nxasana, Telkom's former chief executive officer, pursuant to a settlement agreement between Telkom and Mr. Nxasana, with the result that the shares vested on August 31, 2005. On September 15, 2005, Mr. Nxasana exercised his right to the shares and the shares were transferred from the treasury share reserve to Mr. Nxasana.

Item 7. Major Shareholders and Related Party Transactions

MAJOR SHAREHOLDERS

Overview

Telkom and its predecessors have been responsible for the exclusive provision of public switched telecommunication services in the Republic of South Africa from 1910 through May 2002. Prior to 1991, Telkom's business was conducted as a division of the Department of Posts and Telecommunications of the Government of the Republic of South Africa. On September 30, 1991, the Government of the Republic of South Africa embarked upon a commercialization process through which the Department of Posts and Telecommunications transferred its telecommunications enterprise to Telkom. Telkom remained a wholly state owned entity until May 14, 1997, when the Government of the Republic of South Africa sold a 30% equity stake in Telkom to Thintana Communications, which was 60% beneficially owned by SBC Communications and 40% beneficially owned by Telekom Malaysia. In March 2001, the Government sold a 3% equity stake in Telkom from its holdings to Ucingo Investments, a consortium of black empowerment investors. On March 7, 2003, the Government sold 154,199,467 of its ordinary shares in a global initial public offering, including 14,941,513 ordinary shares through the exercise of an over-allotment option. Prior to the global offering, the Government owned 67% of Telkom's issued and outstanding ordinary shares. Due to funding constraints, Ucingo disposed of its entire shareholding on September 17, 2003. As part of the global offering, on March 4, 2003, the Government granted to persons employed by Telkom on March 4, 2003 and eligible former employees of Telkom, options to purchase 11,140,636 of its ordinary shares, through the Diabo Share Trust, which are exercisable in four equal tranches over a period of three years commencing six months after March 4, 2003, which are held by the Government until exercised. On March 4, 2005, the second anniversary of Telkom's listing, 785,160 bonus shares were allotted by the South African Government to qualifying shareholders under the Khulisa offer. Thintana Communications sold a 14.9% interest in Telkom to South African and certain international institutional investors in June 2004. In November 2004, Thintana Communications announced that it sold its remaining 15.1% interest in Telkom, including its class B ordinary share, to the Public Investment Corporation, an investment management company wholly owned by the South African Government.

The following sets forth entities or persons known to Telkom to be the beneficial holders of 5% or more of Telkom's issued and outstanding ordinary shares as of June 30, 2006. The following information is based on public filings and disclosures.

Name of Shareholder	Number of Ordinary Shares	Percentage of class Issued	Percentage of class Outstanding
Government of the Republic of South Africa	207,055,967 (1)	38.0%	39.8%
Public Investment Corporation	87,660,121 (2)	16.1%	16.9%
Elephant Consortium	37,506,809	6.9%	7.2%

(1) Includes one Class A ordinary share held in the Republic of South Africa by the Government, which represents 100% of the class. Includes 8,448 ordinary shares held in Diabo Trust.

(2) Includes one Class B ordinary share held by the Public Investment Corporation, which represents 100% of the class. Includes 7.5% of Telkom's issued and 7.9% of Telkom's outstanding shares acquired in the market.

As of March 31, 2006, ADRs evidencing approximately 1,559,207 ADSs were held of record by approximately 2 record holders. The 6,236,828 ordinary shares represented by those ADRs (approximately 1.2% of Telkom's issued and outstanding ordinary shares) were registered in the name of Standard Bank of South Africa. As of June 30, 2006, ADRs evidencing approximately 1,594,405 ADSs were held of record by approximately 2 record holders. The 6,377,630 ordinary shares represented by those ADRs (approximately 1.2% of Telkom's issued and outstanding ordinary shares)

were registered in the name of Standard Bank of South Africa. Some of these ADRs were held of record by persons outside the United States. In addition, as of March 31, 2006, we estimate that approximately 74 million publicly traded ordinary shares were held of record outside of South Africa. Since certain of Telkom's ADRs and ordinary shares are held by brokers or other nominees, the number of ADRs and ordinary shares held of record and the number of record holders outside of South Africa may not be representative of the location of where the beneficial holders are resident.

Telkom's special purpose entity established to fund post retirement obligations indirectly held R45 million in nominal value of Telkom's 10.5% unsecured local bond due October 31, 2006 (TL06) and approximately 312,559 of Telkom's ordinary shares as of March 31, 2006.

As authorized by its shareholders at annual general meetings held on January 27, 2004, October 14, 2004 and October 21, 2005, Telkom is authorized to purchase up to 20% of its issued share capital. This authority is valid until Telkom's next Annual General Meeting, or for 15 months from the date of the resolution, whichever period is shorter.

As part of Telkom's commitment to the optimal use of capital, the Telkom board approved a R2 billion share buyback program on June 2, 2006. In the year ended March 31, 2006, Telkom repurchased 12,086,920 of its ordinary shares at a volume weighted average price of R124.31 per share, including costs. These ordinary shares have been cancelled from the issued share capital by the Registrar of Companies.

Between August 3, 2004 and September 15, 2004, Rossal a wholly owned subsidiary of Telkom, repurchased 9,531,454 shares at a volume weighted average price of R78.49 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan. On June 4, 2004, Telkom purchased Acajou for share repurchase activities other than repurchases for the Telkom conditional share plan. Between June 7, 2004 and September 30, 2004, Acajou purchased 10,849,058 shares at a volume weighted average price of R76.12 per share, including costs, which are also being held in treasury. In the year ended March 31, 2004, Rossal, repurchased 3,185,736 shares at a volume weighted average price of R74.58 per share, including costs, which are being held in treasury for purposes of the Telkom conditional share plan.

In terms of the South African Companies Act, 61 of 1973, a subsidiary company may acquire up to 10% of the shares in its holding company and if the holding company acquires its own shares directly, such shares must be cancelled.

Telkom plans on continuing its buy back strategy based on certain criteria.

Except as stated under Item 6. "Directors, Senior Management and Employees–Share Ownership," none of Telkom's directors or senior management is the beneficial owner of any of Telkom's ordinary share capital. Except as disclosed above, Telkom is not directly or indirectly owned or controlled by any other corporation, foreign government or any other natural or legal person severally or jointly and Telkom is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of Telkom. The Government, as a significant shareholder holding the class A ordinary share, has special voting rights that are more fully described in Item 6. "Directors, Senior Management and Employees" below.

RELATED PARTY TRANSACTIONS

Registration Rights Agreement

Telkom has entered into a registration rights agreement with the Government and Thintana Communications. Pursuant to the agreement, the Government has the right to cause Telkom to either effect a JSE public offering in South Africa, or register with the Securities and Exchange Commission all or part of its ordinary shares, or both, at any time starting after the Minister's 545 day lock-up period after the expiration of or release from Thintana Communications' 180-day lockup period. The Government can demand any number of successive registrations, but no more than one in any calendar year, provided that Thintana Communications was entitled to two such registrations prior to the Government becoming entitled to demand any registrations. In addition, the Government has the right to have its ordinary shares registered or sold in a listed public offering any time that Telkom or any other person seeks registration of, or a listed public offering for, Telkom's issued and outstanding ordinary shares.

Pursuant to the registration rights agreement, in the event that the Government exercises its right to include shares held by it in a JSE public offering or US registration of Telkom shares that is sought by Telkom or by any other person, Telkom would be required to bear and pay all expenses incurred in connection with such offering or registration, including all registration, listing and filing and qualification fees, as well as underwriting discount and commissions. However, in the event that the Government exercises its right to demand Telkom to effect a JSE public offering or US registration of ordinary shares held by it, Telkom would be required to bear and pay all expenses incurred in connection with registration, listing and filing or qualifications, however, certain fees relating to such registration or listing shall be borne by the Government. In that case, underwriting discounts and commissions will be borne by each relevant party based on the number of shares issued or sold by that party. Telkom is required to indemnify certain parties, including the Government and the underwriters and their respective directors, officers, employees and agents against certain losses in connection with such public offering or registration.

Relationship with the Government of the Republic of South Africa

The Government of the Republic of South Africa is Telkom's largest shareholder and is responsible for the telecommunications industry policy in the Republic of South Africa. The Ministry of Communications has the most direct role in our business. However, we have interactions with several other Ministries, including the Ministry of Finance for matters relating to taxation, the Ministry of Labor for matters relating to employment and the Ministry of Trade and Industry for matters relating to the communications industry.

The Government of the Republic of South Africa as regulator

Ministry of Communications

The Ministry of Communications has a number of roles that, directly or indirectly, affect us:

- The Ministry of Communications represents the Government of the Republic of South Africa as Telkom's shareholder. The Minister has the powers and duties conferred on a shareholder of a public limited liability company by South African law and Telkom's articles of association.
- The Ministry is responsible for the development of telecommunications policy and for proposing legislation to implement such policy, subject to supervision by the Cabinet of the Republic of South Africa. The Ministry is also responsible for administering the Telecommunications Act, and the Independent Communications Authority of South Africa Act, 13 of 2000.
- The Ministry has the following primary powers under the Telecommunications Act:

- it may issue policy directives to ICASA, binding it to perform its functions under the Telecommunications Act, in accordance with such policy directives;
- any regulation made by ICASA needs to be approved and published by the Ministry, which may reject such approval, before it becomes valid and enforceable; and
- the Ministry has the sole power to approve the grant of any license for a public switched telecommunications service, a national long distance telecommunications service, an international telecommunications service, a service to be provided by small businesses in underserviced areas with a teledensity of less than 5% or a mobile telecommunications service.

ICASA

ICASA is the regulatory body for the telecommunications and broadcasting industries. ICASA derives its powers from the Independent Communications Authority of South Africa Act, 13 of 2000, and, with respect to telecommunications, from the Telecommunications Act, 103 of 1996. ICASA serves as the primary regulatory and licensing authority for the South African telecommunications and broadcasting industries, except for specific licenses that can only be granted by the Minister of Communications.

ICASA's primary powers under the Telecommunications Act are to:

- conduct public inquiries in any matter relevant to the achievement of the objectives of the Telecommunications Act or to the performance of its functions in terms of the Telecommunications Act;
- plan, control and manage the radio frequency spectrum and license its usage;
- make recommendations to the Minister of Communications on the granting of telecommunication licenses for which the Minister of Communications has issued an invitation to apply and, where such licenses are granted by the Minister, issue such licenses and, in all other cases grant and issue telecommunication licenses;
- make regulations as provided for in the Telecommunications Act, subject to ratification by the Minister of Communications;
- approve, amend or reject agreements entered into by telecommunications licensees relating to interconnection or the leasing of telecommunications facilities, in accordance with the relevant regulations; and
- investigate and adjudicate alleged contraventions of the Telecommunications Act, regulations or license conditions by licensees and, where appropriate, impose sanctions provided in the Telecommunications Act.

A bill amending the ICASA Act, No. 13 of 2000, was passed by the Parliament of South Africa and signed by the President and came into effect on July 19, 2006. The amendment to the ICASA Act redefines and expands the powers of ICASA to control, in conjunction with the Electronic Communications Act, the communications market. The main provisions of the ICASA Act amendments are the removal of the power of the Minister to approve regulations made by ICASA, increased power of ICASA to conduct enquiries and to enforce its rulings and the establishment of a Complaints and Compliance Committee to assist ICASA in hearings and making findings on complaints and allegations of non-compliance with the Electronic Communications Act.

Public Finance Management Act and Public Audit Act

Telkom is required to report certain aspects of its business and operations, such as its corporate and business plans, to the Minister of Communications in her capacity as executive authority of Telkom pursuant to the PFMA and PAA. Telkom has obtained a temporary exemption from certain provisions of the PFMA until November 2007 and has been informed by the South African Auditor-General that it will not be required to comply with the PAA until such date. Telkom submitted an application to the National Treasury to motivate amending the PFMA so as to exclude companies listed on the JSE, such as Telkom, from the provisions of the Act while such companies remain so listed. See Item 3. "Key Information–Risk Factors–Risks Related to Regulatory and Legal Matters–If Telkom is 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 Africa Public Audit Act of 2004, or PAA, Telkom could incur increased expenses and its net profit could decline and compliance with the PFMA and PAA could result in the delisting of Telkom's ordinary shares and ADSs from the JSE and the New York Stock Exchange."

The Government of the Republic of South Africa as a customer

The departments and agencies of the Government of the Republic of South Africa in the aggregate comprise one of our largest customers. Generally, we deal with the various departments and agencies of the Government as separate customers, and the provision of services to any one department or agency does not constitute a material part of our revenues. Legislation has been enacted to centralize all procurement by the Government through one agency. We estimate that in the year ended March 31, 2006, Government customers, excluding certain Government owned parastatal companies, accounted for at least 9% of our total fixed-line revenue, excluding directory services and other revenue. If the Government transfers some or all of its business to other operators, our operating revenue and net profit could decline.

The Government Of The Republic Of South Africa Guarantees

Pursuant to Section 35 of the South African Exchequer Act, 66 of 1975, the Government of the Republic of South Africa guaranteed Telkom's borrowings incurred prior to 1991. As of March 31, 2006, R4.3 billion of our total indebtedness of R11 billion was guaranteed by the Government of the Republic of South Africa.

Relationship with Vodacom and Related Transactions

Vodacom Joint Venture Agreement

We acquired a 50% equity interest in Vodacom in 1993. Our rights as a shareholder of Vodacom are governed by a joint venture agreement, which was entered into on March 29, 1995, among Telkom, Vodafone, VenFin, Vodacom and other related parties. On April 20, 2006, Vodafone acquired 100% of the shares of VenFin Limited, who ultimately owned 15% in Vodacom, thus increasing its beneficial interest in Vodacom to 50%.

Governance

The Vodacom joint venture agreement sets the number of directors of the board of directors of Vodacom at a minimum of twelve. Telkom has the right to appoint four directors, Vodafone has the right to appoint three directors, VenFin has the right to appoint one director and the remaining four directors are appointed by shareholders holding 10% or more of the issued shares of Vodacom who are a party to the joint venture agreement. Currently, the only shareholders holding beneficially 10% or more of the issued shares in Vodacom are Telkom and Vodafone and the four board members appointed by Telkom and Vodafone are senior management of Vodacom.

Under the Vodacom joint venture agreement, the Vodacom board was required to establish a directing committee and delegate all its power, functions and authority to act on behalf of Vodacom to this committee. This authority cannot be revoked without the prior written consent of the shareholders holding 10% or more of the issued shares of Vodacom. The directing committee comprises all directors appointed to Vodacom's board by shareholders holding 10% or more of the issued shares of Vodacom. Currently, the directing committee consists of eight members comprising four directors appointed by Telkom and four directors appointed by Vodafone.

The unanimous written agreement of those shareholders holding 10% or more of the issued shares of Vodacom is required for, among other things, the following consensus matters prior to Vodacom or any of its subsidiaries that are a party to the joint venture agreement taking any of the following actions:

- changing the nature of or discontinuing its business;
- disposing of a material part of assets, shares or claims against its subsidiaries;
- making material acquisitions, merging with another company or entering into a change of control transaction;
- altering or affecting its capital structure, including the issuance of any shares, the granting of options or the issue of convertible debentures;
- proposing any special resolution;
- altering its dividend policy;
- incurring certain interest bearing debt which exceeds 50% of the consolidated shareholders' funds;
- establishing any employee bonus or share incentive scheme;
- appointing or removing any director to or from its board of directors, otherwise than in accordance with the joint venture agreement;
- entering into any agreement with any of its shareholders or affiliates;
- agreeing to any material alteration of its rights flowing from any license held by it or its subsidiaries enabling such companies to do their business;
- approving or amending the business plan of Vodacom; and
- appointing or removing the chairperson of the board or chief executive officer.

If the shareholders holding 10% or more of the issued shares of Vodacom fail to reach agreement on an above consensus matter, they are required to exercise all the powers that they have to ensure the consensus matter is not consummated. Should any dispute arise between the shareholders holding 10% or more of the issued shares of Vodacom regarding the failure of those shareholders to reach consensus, the dispute is to be referred for determination to the chairpersons of those shareholders at the request of any shareholder holding 10% or more of the issued shares of Vodacom. If the chairpersons fail to reach agreement on the consensus matter in question, each shareholder is entitled to enforce any rights through any competent court.

Pursuant to the Vodacom joint venture agreement, all members of the directing committee are required to agree on certain matters and, in the event of disagreement, the issue is treated as a consensus matter requiring the unanimous written consent of those shareholders holding 10% or more of the issued shares of Vodacom. The following matters require unanimous approval:

- the approval or amendment of any subsidiary company business plans;

- expenditures that are in excess of 10% of total budgeted expenditures;
- non-budgeted capital expenditures that are in excess of 5% of the consolidated shareholders' funds;
- the encumbrance of any assets or the issuance of guarantees where the liability secured is in excess of the lower of 5% of the consolidated shareholders' funds or R10 million;
- any agreement with any shareholder of Vodacom; and
- the appointment of the company secretary.

The approval of at least six directors appointed to the directing committee is required to take action with respect to:

- the approval or adoption of the terms and conditions and any amendments to the interconnect and transmission agreements concluded with Telkom;
- the setting or adjustment of tariffs; and
- the approval of terms and conditions of supply and associated agreements with the suppliers of infrastructure.

Non-competition

Each party to the Vodacom joint venture agreement has agreed that neither it nor its affiliates will form a similar joint venture relationship, or invest in any competitive business in the Republic of South Africa. This restraint lapses with respect to each party two years after the date such party ceases to be a shareholder of Vodacom or upon termination of the joint venture agreement.

In addition, each party to the Vodacom joint venture agreement has agreed that it will not own, manage or otherwise become engaged in any GSM mobile telecommunications entity or analogue system or otherwise participate in any mobile telecommunications activities in any African country, a major portion of which is situated below the equator, unless the party proposing to engage in such activity first offers Vodacom the opportunity to pursue such activity and Vodacom declines. Any decision by Vodacom to become involved in a GSM or analogue system in this territory requires the written consent of those shareholders holding 10% or more of the issued shares of Vodacom.

Right of first offer

If any Vodacom shareholder that is a party to the joint venture agreement wishes to sell any of the shares held by it, it must offer to sell such shares and an equivalent portion of its claims on loan accounts in Vodacom to the other party to the joint venture agreement. If none of the non-transferring parties accepts such an offer to purchase all of the shares and claims offered on the terms in the notice, then the selling shareholder has the right to sell the shares and an equivalent portion of its claims to a third party at a price not lower than the price, and upon the terms, set forth in the seller's original offer.

Other related transactions with Vodacom

We market and sell our residential products through our customer call center, customer service branches and Telkom Direct Shops, mobile customer service branches, kiosks, the South African Post Office, independent distributors and vendors and through telemarketing.

Other Related Transactions

The following are additional related party transactions of which Telkom is aware:

Mesdames Mtshotshisa and Chikane and Messrs. Tabata, Tenza and Mostert, five of Telkom's board members during the 2006 financial year, were the Government's representatives on Telkom's board of directors. Ms. Chikane resigned on June 19, 2006 and was replaced by Ms. Matthews as the Government's representative on Telkom's board of directors. Mr. Mahloele and Ms. Ngwezi, two of Telkom's Board members, were the Public Investment Corporation's representatives on Telkom's board of directors. Ms. Ngwezi resigned on June 29, 2005. The Public Investment Corporation is currently only entitled to appoint one representative to Telkom's board of directors.

See also note 40 to the Telkom Group's consolidated financial statements for additional information with respect to related party transactions.

Item 8. Financial Information

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

Reference is made to Item 18 of this annual report for this information.

Legal Proceedings

On May 7, 2002, the South African Value added Network Services Providers' Association, an association of VANS providers, filed complaints against Telkom at the Competition Commission of the Republic of South Africa under the South African Competition Act, 89 of 1998, alleging, among other things, that Telkom was abusing its dominant position in contravention of the Competition Act, 89 of 1998, and that it was engaged in price discrimination. The Competition Commission found, among other things, that several aspects of Telkom's conduct prima facie contravened the Competition Act, 89 of 1998, and referred certain of the complaints to the Competition Tribunal for adjudication. The complaints deal with Telkom's alleged refusal to provide telecommunications facilities to certain VANS providers to construct their networks, refusal to lease access facilities to VANS providers, provision of bundled and cross subsidized competitive services with monopoly services, discriminatory pricing with regard to leased line services and alleged refusal to peer with certain VANS providers. Telkom has brought an application in the South African High Court challenging the Competition Tribunal's jurisdiction to adjudicate this matter. The Competition Commission has opposed the application. Telkom is currently waiting for certain confidential documents contained in the Competition Commission's record of proceedings, after which Telkom may supplement its papers if necessary and after which the Competition Commission must file their answering affidavit. Telkom's attorneys are corresponding with the Competition Commission in this regard. Telkom is currently waiting for the Competition Commission to file its record of proceedings. The Competition Commission has now approached the High Court on application for an order directing which of the confidential documents can be included in the record of proceedings. These matters and the amount of Telkom's liability are not expected to be finalized within the next financial year. If these complaints are upheld, however, Telkom could be required to cease these practices and fined an amount of up to 10% of Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, or be ordered to divest itself of the relevant business. Telkom is currently unable to predict the amount that it may eventually be required to pay. If Telkom is required to cease these practices, divest itself of the relevant business or pay significant fines, Telkom's business and financial condition could be materially adversely affected and its revenue and net profit could decline.

Telcordia instituted arbitration proceedings against Telkom in March 2001 before a single arbitrator of the International Court of Arbitration, operating under the auspices of the International Chamber of Commerce, which is seated in Paris, France. The seat of the arbitration is in Johannesburg, South Africa. Telcordia is seeking to recover approximately $130 million for monies outstanding and damages, plus costs and interest at a rate of 15.5% per year. The arbitration proceedings relate to the cancellation of an agreement entered into between Telkom and Telcordia during June 1999 for the development and supply of an integrated end-to-end customer assurance and activation system by Telcordia. In September 2002, a partial award was issued by the arbitrator in favor of Telcordia. Telkom subsequently filed an application in the South African High Court to review and set aside the partial award. On November 27, 2003, the South African High Court set aside the partial award and issued a cost order in favor of Telkom. On May 3, 2004, the South African High Court dismissed an application by Telcordia for leave to appeal and ordered Telcordia to pay the legal costs of Telkom. On November 29, 2004 the Supreme Court of Appeals granted Telcordia leave to appeal. Telcordia has since filed a notice of appeal. The appeal is set down for hearing from October 30, 2006 to

November 3, 2006. Telcordia also petitioned the United States District Court for the District of Columbia to confirm the partial award, which petition was dismissed, along with a subsequent appeal. Following the dismissal of the appeal, Telcordia filed a similar petition in the United States District Court of New Jersey. The United States District Court of New Jersey also dismissed Telcordia's petition, reaffirming the decision of the United States District Court of Columbia. Telcordia has since appealed this dismissal. Telkom is currently unable to predict when the dispute will be resolved or the amount that it may eventually be required to pay Telcordia, if any, and has reversed all of its provisions for estimated liabilities, including interest and legal fees. If Telcordia recovers substantial damages from Telkom, Telkom would be required to fund such payments from cash flows or drawings on its existing credit facilities, which could cause its indebtedness to increase and its net profit to decline.

Vodacom entered into a five year management agreement with Vee Networks effective April 1, 2004, pursuant to which Vodacom would have managed Vee Networks' cellular network operations in Nigeria with the intention of acquiring an equity stake in the business. On May 31, 2004, however, Vodacom announced that it had elected to terminate the management contract and abandon its plan to make an equity investment in the business of Vee Networks in Nigeria. Vodacom continued to provide technical support to Vee Networks for a period of six months, until September 30, 2004, on which date 7 employees returned to South Africa and 22 employees were employed by Vee Networks in Nigeria. In 2004 Econet Wireless Network had initiated various actions against Vee Networks and Vee Networks' shareholders. Vodacom was featured in some of these actions as a potential defendant in the event its acquisition of Vee Networks' shares occurred. Since Vodacom did not acquire any shareholding in Vee Networks, no action was instituted against it by Econet Wireless Network Limited.

In December 2005, the ISPA, an association of ISPs, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed or be required to cease these practices or divest itself of the relevant business, if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The complaints deal with the cost of access to SAIX, the prices offered by TelkomInternet, the alleged delay in provision of facilities to ISPs and the alleged favorable installation timelines offered to TelkomInternet customers. The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint. These matters and the amount of Telkom's liability are not expected to be finalized within the next financial year. Telkom is currently unable to predict the amount that it may eventually be required to pay. If Telkom is required to cease these practices, divest itself of the relevant business or pay significant fines, Telkom's business and financial condition could be materially adversely affected and its revenue and net profit could decline.

As competition continues to increase, we expect that we will become involved in an increasing number of disputes regarding the legality of services and products provided by us and third parties. These disputes may range from court lawsuits to complaints lodged by or against us with various regulatory bodies. For instance on April 17, 2003, ORION filed a complaint and launched interim proceedings against Telkom with the South African competition authorities. The complaint and proceedings relate to certain discount plans that Telkom has in place or is negotiating with some of its business customers. The complainant alleges that Telkom is specifically targeting the complainant's customers, who would otherwise be using the complainants' least cost routing technology, which enables fixed-to-mobile calls from corporate branch exchanges to be transferred directly to mobile networks, and that Telkom's actions are exclusionary and based on predatory pricing. The Competition Commission has declined to refer the complaint to the Competition Tribunal. The complainant has however referred the complaint to the tribunal. In another high court matter, Telkom

has reached a settlement with 13 respondents in terms of which Telkom accepted the validity of a judgment made in October 2003 in the Pretoria High Court which found least-cost routing is legal. In December 2003, Telkom was given leave to appeal the original ruling, an option that it has decided not to pursue. We are not currently able to predict when these disputes may be resolved or the amount that we may eventually be required to pay, however, we have not included provisions for any of these claims in our financial statements. In addition, we may need to spend substantial amounts defending or prosecuting these claims even if we are ultimately successful. If we were to lose these or future legal and arbitration proceedings, we could be prohibited from engaging in certain business activities and could be required to pay substantial penalties and damages, which could cause our revenue and net profit to decline and have a material adverse impact on our business and financial condition. We may be required to fund any penalties or damages from cash flows or drawings on our credit facilities, which could cause our indebtedness to increase.

We are parties to various additional proceedings and lawsuits in the ordinary course of our business, which our management does not believe will have a material adverse impact on us.

Dividend Policy

For a discussion of Telkom's dividend policy, see Item 3. "Key Information–Dividends and Dividend Policy."

SIGNIFICANT CHANGES

Except as disclosed elsewhere in this annual report, there have been no significant changes in Telkom's business since March 31, 2006, the date of the annual financial statements included in this annual report.

Item 9. The Offer and Listing

Markets

Telkom's ordinary shares are listed on the JSE in the "Telecommunications Services" sector under the symbol "TKG" and ISIN Code "ZAE000044897" and its ADSs are listed on the New York Stock Exchange, Inc. under the symbol "TKG." The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York, as depositary, under the Deposit Agreement, dated as of March 3, 2003, among Telkom, The Bank of New York, as depositary, and the registered and beneficial owners from time to time of ADRs. The following table sets forth, for the periods indicated:

- the reported high and low market quotations as reported by the JSE; and
- the reported high and low sales prices on the NYSE Composite Tape of the ADSs:

	JSE (ZAR per Ordinary Share)		NYSE (USD per ADS)	
	High	Low	High	Low
2003 Financial Year (1)	**30.75**	**27.80**	**14.78**	**13.65**
2004 Financial Year	**78.80**	**29.55**	**49.60**	**14.85**
First Quarter				
April 2003	34.75	29.10	18.25	14.68
May 2003	34.00	30.50	17.70	15.58
June 2003	38.75	31.30	20.80	15.75
Second Quarter				
July 2003	45.00	38.80	24.35	21.20
August 2003	43.02	40.00	23.44	21.46
September 2003	44.07	40.30	25.34	22.15
Third Quarter				
October 2003	53.50	43.30	30.90	24.90
November 2003	65.30	53.20	40.50	30.75
December 2003	70.51	62.80	43.10	37.70
Fourth Quarter				
January 2004	75.01	62.50	44.90	35.00
February 2004	77.60	67.25	45.05	40.85
March 2004	78.80	68.45	49.60	41.60
2005 Financial Year	**117.00**	**70.25**	**79.85**	**42.38**
First Quarter				
April 2004	87.00	75.50	54.80	43.75
May 2004	79.40	72.50	47.26	42.45
June 2004	86.50	73.00	52.75	45.25
Second Quarter				
July 2004	84.00	77.75	54.25	50.90
August 2004	81.99	76.00	51.00	46.70
September 2004	80.00	72.55	48.00	44.80
Third Quarter				
October 2004	87.00	73.50	56.75	46.44
November 2004	103.50	82.00	70.25	55.70
December 2004	101.00	91.20	66.90	63.80

	JSE (ZAR per Ordinary Share)		NYSE (USD per ADS)	
	High	Low	High	Low
Fourth Quarter				
January 2005	109.00	93.01	72.75	62.10
February 2005	116.31	104.20	79.50	68.10
March 2005	117.00	101.50	79.85	67.00
2006 Financial Year	**171.00**	**98.45**	**111.50**	**64.01**
April 2005	109.50	98.45	70.36	64.75
May 2005	116.39	106.50	73.98	66.05
June 2005	120.30	104.10	71.25	64.11
Second Quarter				
July 2005	131.00	108.00	77.15	64.01
August 2005	130.00	120.00	79.98	75.25
September 2005	129.98	121.35	81.85	76.50
Third Quarter				
October 2005	130.00	114.65	79.35	70.85
November 2005	145.00	125.80	86.75	77.75
December 2005	141.59	130.05	88.90	82.11
Fourth Quarter				
January 2006	152.00	134.75	99.85	88.00
February 2006	171.00	148.05	111.50	98.67
March 2006	165.90	148.10	108.39	97.36
2007 Financial Year through June 30	**167.85**	**121.05**	**109.50**	**67.42**
First Quarter				
April 2006	167.85	139.50	109.50	91.79
May 2006	147.00	127.51	96.40	76.90
June 2006	142.50	121.05	86.00	67.42

(1) From March 4, 2003, the date the ordinary shares commenced trading on the JSE and the ADSs commenced trading on the NYSE through March 31, 2003.

On June 30, 2006, the last trading price of the ordinary shares as reported by the JSE was R131.99 per share and the last trading price of the ADSs on the NYSE Composite Tape was $70.00.

Item 10. Additional Information

MEMORANDUM AND ARTICLES OF ASSOCIATION

Set forth below is a summary of material information relating to Telkom's share capital, including summaries of certain provisions of Telkom's memorandum and articles of association, the South African Companies Act, 61 of 1973, and the Listings Requirements of the JSE. This summary is qualified in its entirety by the provisions of Telkom's memorandum and articles of association and by the applicable provisions of South African law and the Listings Requirements of the JSE. You should refer to the full text of Telkom's new memorandum and articles of association, which is incorporated by reference as an exhibit to this annual report.

General

Telkom was incorporated on September 30, 1991, as a public limited liability company registered under the South African Companies Act with registration number 1991/005476/06. Telkom is governed by its memorandum and articles of association and the provisions of the South African Companies Act, 61 of 1973. Telkom is also subject to the Listings Requirements of the JSE and the New York Stock Exchange.

Telkom's main object and business is to supply telecommunications, broadcasting, multimedia technology and information services to the general public in the Republic of South Africa.

Share Capital

Pursuant to a special resolution passed at a general meeting of Telkom held on January 16, 2003, Telkom's authorized and issued share capital was, with effect from March 4, 2003, altered by the conversion of one ordinary share held by the Government into one class A ordinary share with a par value of R10 and one ordinary share held by Thintana Communications into one class B ordinary share with a par value of R10. As a result, as of March 31, 2005, Telkom's authorized share capital was R10,000,000,000, divided into 999,999,998 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10, and its issued share capital was R5,570,318,190, divided into 557,031,817 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10. As of March 31, 2006, the date of Telkom's most recent balance sheet, which is included in this annual report, Telkom's authorized share capital was R10,000,000,000, divided into 999,999,998 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10, and its issued share capital was R5,449,448,970 divided into 544,944,897 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10 and its outstanding share capital was R5,214,083,180, divided into 521,408,318 ordinary shares with a par value of R10 each, one class A ordinary share with a par value of R10 and one class B ordinary share with a par value of R10.

The following shows a reconciliation of shares outstanding from April 1, 2005 through March 31, 2006:

	Number of shares
Shares issued at April 1, 2005	557,031,819
Shares held in treasury at April 1, 2005	(23,566,248)
Shares outstanding at April 1, 2005	533,465,571
Shares repurchased and cancelled during 2006 financial year	(12,086,920)
Shares released from treasury during 2006 financial year	29,669
Shares outstanding at March 31, 2006	521,408,320
Shares held in treasury at March 31, 2006	23,536,579
Shares issued at March 31, 2006	544,944,899

Only ordinary shares are listed on the JSE and ADSs listed on the New York Stock Exchange only represent ordinary shares. The class A and B ordinary shares are not listed on any stock exchange.

Before the alteration of Telkom's authorized and issued share capital on March 4, 2003, Telkom's authorized share capital was R10,000,000,000, divided into 1,000,000,000 ordinary shares with a par value of R10 each, and its issued share capital was R5,570,318,190, divided into 557,031,819 ordinary shares with a par value of R10 each and its share premium was R2,723,000,000. No alterations to Telkom's share capital occurred during the five years preceding the date of this annual report, other than the alteration of Telkom's authorized and issued share capital on March 4, 2003 and as discussed above.

All of Telkom's issued and outstanding ordinary shares rank equally with each other and are fully paid and not subject to calls for additional payments of any kind. Except as specified in Telkom's articles of association, selected provisions of which are described in this annual report, the class A ordinary share and the class B ordinary share rank equally with the ordinary shares.

In March 2003, the government granted share options to purchase up to 11,140,636 of its ordinary shares, representing 2% of Telkom's issued and outstanding ordinary share capital, through the Diabo Share Trust. The exercise price is R33.81 per share. The share options are exercisable in four equal tranches. The four tranches were exercised in September 2003, March 2004, March 2005 and March 2006.

Significant Shareholder

Pursuant to Telkom's articles of association, a "significant shareholder" is the registered holder of the class A ordinary share or the class B ordinary share and, in addition, of at least 15% of the issued ordinary shares, which percentage will be adjusted from time to time to reflect the dilutive effect of any issuance of new ordinary shares by Telkom after March 4, 2003, provided that the percentage will not be lower than 10%. A significant shareholder has certain specific rights in terms of Telkom's memorandum and articles of association as more fully described below. As of the date hereof, the Government is the only significant shareholder.

If, by March 4, 2011, the class A ordinary share and class B ordinary share have not otherwise been converted into ordinary shares under the terms of Telkom's articles of association, they will automatically be so converted and the rights of the holders of the class A ordinary share and class B ordinary share, including any rights as significant shareholders, will be terminated under Telkom's articles of association.

Dividends

Telkom's shareholders, in a general meeting, or its board, from time to time, may declare a dividend to be paid to the registered holders of one or more classes of shares; provided that Telkom's shareholders may not declare a greater dividend in a general meeting than is recommended by the board and provided further that no dividend may be declared to a holder of the class A ordinary share or class B ordinary share, unless the same dividend is declared to holders of all ordinary shares. In addition, the declaration or distribution of dividends or other distributions must be approved by the board as a reserved matter. See Item 6. "Directors, Senior Management and Employees–Directors and Senior Management–Reserved Matters."

Pursuant to Telkom's articles of association, dividends on ordinary shares will not bear interest. Dividends are declared payable to shareholders registered as such on a date subsequent to the date of publication of the announcement of the declaration of the dividend. This date may not be sooner than 14 days after the date of such publication. All unclaimed dividends may be invested or otherwise utilized by the board for Telkom's benefit until claimed, provided that dividends unclaimed after a period of three years shall be forfeited. Forfeited dividends revert to Telkom or its assigns.

Any dividend or other sum payable in cash to a shareholder may be transmitted by ordinary post to the address of the shareholder recorded in the register or any other address the shareholder may previously have given to Telkom in writing or by electronic transfer to such bank account as the shareholder may previously have given to Telkom in writing. Telkom will not be responsible for any loss in transmission. Subject to the approval of shareholders in a general meeting, any dividend may be paid and satisfied, either wholly or in part, by the distribution of specific assets as the board may determine and direct at the time of declaring the dividend.

Any cash dividends paid by Telkom will be declared in South African Rands. The shareholders in a general meeting, or the board of directors, may at the time of declaring a dividend, stipulate that the dividend be paid to shareholders having registered addresses outside South Africa or who have given written instructions requesting payment at addresses outside South Africa, shall be paid in a currency other than South African currency. Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the ordinary shares underlying the ADSs, subject to the terms of the deposit agreement. Cash dividends paid in Rands will be converted by the depositary to Dollars and paid by the depositary to holders of ADSs, net of conversion expenses of the depositary, in accordance with the deposit agreement, a copy of which is incorporated by reference to Exhibit 2.2 to this annual report.

Voting Rights

Subject to any rights or restrictions attached to any class of shares, every shareholder present at a general meeting in person, by proxy or by representation will, on a show of hands, have one vote only and, in the case of a poll, that proportion of the total votes which the aggregate amount of the nominal value of the shares held by that shareholder bears to the aggregate of the nominal value of all the shares issued by Telkom. For a description of shareholders' rights to request a poll, see Item 10. "Additional Information–Memorandum and Articles of Association–General Meetings of Shareholders." A shareholder is entitled to appoint a proxy to attend, speak and vote at any meeting on the shareholder's behalf. The proxy need not be a shareholder of Telkom.

Issue of Additional Shares and Pre-emptive Rights

Subject to the provisions of the South African Companies Act, 61 of 1973, the JSE Listings Requirements and any rights or restrictions attached to any class of shares, shareholders in a general meeting may authorize the board to allot and issue shares or grant options over unissued shares to such persons at such times, and generally on such terms and conditions, and for such consideration, whether payable in cash or otherwise, as it may decide. Telkom's shareholders granted to the board the authority to allot and issue up to 22,281,272, representing 4% of Telkom's issued ordinary share capital, ordinary shares to the participants under Telkom's conditional share plan in a general meeting held on January 27, 2004. There may not be any increase or reduction in Telkom's issued share capital or that of any of its subsidiaries without the authorization of the board as a reserved matter. See Item 6. "Directors, Senior Management and Employees–Directors and Senior Management–Reserved Matters." No change in the number of issued class A ordinary shares or class B ordinary shares may be made without the approval of the holder of the class A ordinary share and class B ordinary share, respectively.

The Listings Requirements of the JSE require Telkom's unissued ordinary shares to be offered first to existing shareholders in proportion to their holdings of ordinary shares unless these shares are issued for the acquisition of assets. The shareholders may, however, grant either a general approval in a general meeting authorizing the directors to issue ordinary shares for cash or a specific approval for a particular issue of ordinary shares, without first offering them to existing shareholders. Issues of ordinary shares for cash pursuant to a general approval in the aggregate in any one financial year may not exceed 15% of the issued share capital of that class. The maximum discount at which securities may be issued under a general approval is 10% of the weighted average trading price of those securities over 30 business days on the JSE prior to the date that the price of the issue is determined or agreed by the directors. A specific approval to issue ordinary shares is subject to, among other things, the disclosure of the number, or maximum number, of securities to be issued and disclosure of whether the discount at which the securities are to be issued is unlimited and, if not, the limit. A general and specific approval are each subject to the requirement of approval of a 75% majority of votes cast by shareholders present or represented by proxy at a general meeting, excluding, in the case of a specific approval, any parties and their associates participating in the specific issue for cash. As of the date hereof, except for the authority referred to above, no general or specific approval authorizing the directors to issue shares for cash has been granted to the board by the shareholders of Telkom.

Subject to the South African Companies Act, 61 of 1973, the directors or Telkom's shareholders may resolve in a general meeting to utilize all or any part of Telkom's reserves, or any amount available for distribution as a dividend and not required for the payment or provision of dividends on preference shares, to pay for Telkom's authorized but unissued shares to be issued as fully paid capitalization shares to shareholders entitled to receive such distributions as a dividend.

Transfer of Shares

Telkom's articles of association do not contain any restriction on the right to transfer ordinary shares, except as described below. Ordinary shares may be transferred by an instrument in writing in any usual common form or in such other form as the board of directors may approve if such transfer does not arise pursuant to a trade of such shares on the JSE. The transferor will be deemed to remain the holder of the ordinary shares until the name of the transferee is entered in Telkom's share register in respect of the transferred ordinary shares. Every instrument of transfer presented for registration must be accompanied by the certificate representing the ordinary shares to be transferred and/or such other evidence Telkom may require to prove the title of the transferor or the transferor's right to transfer the ordinary shares.

Although shareholders are entitled to hold their ordinary shares in certificated form, ordinary shares may only be traded on the JSE if they have been dematerialized through Share Transactions Totally Electronic Limited, or STRATE. A dematerialized share is not evidenced by a share certificate and may not be transferred by an instrument in writing, but is represented and transferred by means of electronic book entries.

The class A share is not transferable to any transferee, except to an eligible Ministry, as defined in the articles of association, without the written consent of the class B shareholder. If the class A share is to be transferred to an eligible Ministry, it may be so transferred only if it is transferred together with as many shares as would be sufficient to constitute the transferee a significant shareholder without taking account of any other shares already held by or on behalf of such transferee at the time of the actual delivery of the class A share to the transferee pursuant to the applicable underlying contract, and only after consultation with the class B shareholder. The class A share will be converted into an ordinary share on March 4, 2011 or if, at any time before then, it ceases to be held by the Minister, as defined in the articles of association, or the class B share is converted into an ordinary share.

The class B share, including the rights attached to it, may be transferred to a transferee only if it is transferred together with as many shares as would be sufficient to constitute the transferee a significant shareholder without taking account of any other shares already held by or on behalf of such transferee at the time of the actual delivery of the class B share to the transferee pursuant to the applicable underlying contract, and only after consultation with the class A shareholder. The class B share will be converted into an ordinary share on March 4, 2011 or if, at any time before then, the class B shareholder ceases to hold at least 5% of Telkom's issued shares.

Disclosure of Interest in Shares

Pursuant to the South African Companies Act, 61 of 1973, registered shareholders are required at the end of every calendar quarter to disclose to the issuer the identity of each other person who has a beneficial interest in the shares held by the registered holder and the number and class of those shares. Moreover, an issuer of shares may, by notice in writing, require a person who is a registered holder of, or whom the issuer knows or has reasonable cause to believe, has a beneficial interest in, a share issued by the issuer to identify to the issuer the person on whose behalf a share is held. The addressee of the notice may also be required to give particulars of the extent of the beneficial interest held during the three years preceding the date of the notice. All issuers of shares are obliged to establish and maintain a register of the disclosures described above and to publish in their annual financial statements a list of the persons who hold beneficial interests equal to or in excess of 5% of the total number of shares of that class issued by the issuer together with the extent of those beneficial interests.

Register of Members

Telkom keeps a register of its members, being shareholders whose names have been included in this register, in South Africa. Telkom may keep a branch share register in any foreign country, subject to the approval of the South African Reserve Bank.

General Meetings of Shareholders

Telkom is required by the South African Companies Act, 61 of 1973, to hold an annual general meeting not later than nine months after the end of every financial year and within 15 months after the date of its last preceding annual general meeting. The board may convene a general meeting whenever it thinks fit and must do so on the request of 100 shareholders or of shareholders holding, at the date of request, not less than one-twentieth of shares carrying voting rights.

Telkom is required by the South African Companies Act, 61 of 1973, to provide at least 21 “clear days” intervening notice for annual general meetings and for general meetings at which special resolutions are proposed, and at least 14 “clear days” intervening notice for all other general meetings. “Clear days” exclude the date on which notice is given, and the date on which the meeting is held.

A holder of shares may by notice require Telkom to record an address within South Africa which shall be deemed to be his or her address for the purpose of the service of notices. Telkom’s articles of association require notices of general meetings to be in writing and to be given or served on any shareholder either by sending the notice, or a message advising that the notice is available on a website and containing the address of such website by electronic mail or telefacsimile to an electronic mail address or telefacsimile number notified to Telkom for this purpose. Alternatively, the written notice may be given by delivery in person or by sending it through the post, properly addressed, to a shareholder at his or her address shown in the register of shareholders or to a beneficial holder of Telkom’s shares at the address which has been disclosed to Telkom and recorded in its register of such disclosures. Notice may be given to any beneficial holder of Telkom’s shares who has not disclosed his or her address, electronic mail address or telefacsimile number to Telkom, by publishing that notice or an advertisement that such notice is available on a website, in the South African Government Gazette and any newspaper determined by Telkom’s directors. Any notice to shareholders must simultaneously be given to the secretary or other suitable official of any recognized stock exchange on which Telkom’s shares are listed in accordance with the requirements of the stock exchange. Every notice shall be deemed to have been received on the date on which it is so delivered and, if it is sent by post, on the day on which it is posted. If it is published in the South African Government Gazette or if it is advertised in the Government Gazette, it is deemed to have been received on the date it appears in the Government Gazette. If it is sent by electronic mail or telefacsimile, it is deemed to have been sent on the day it is sent or transmitted.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. A quorum is at least three shareholders present in person or, in the case of a shareholder which is a company, by representation, and entitled to vote, provided that no quorum will be constituted if the class A shareholder and class B shareholder are not duly represented. If within thirty minutes from the time appointed for the meeting a quorum is not present, the meeting will stand adjourned to the same day in the next week, or if that day is a South African public holiday or a Saturday or Sunday, the next succeeding day other than a South African public holiday, Saturday or Sunday, at the same time and place. The quorum at the adjourned meeting shall be three shareholders present in person or by representation. If a quorum at the initial meeting was not established because of the absence of the class A shareholder or class B shareholder, the presence of the absent shareholder is not required to establish a quorum at the adjourned meeting. In order to pass a special resolution, shareholders holding in the aggregate not less than one fourth of the total votes of all shareholders entitled to vote must be present in person or by proxy at the meeting.

At a general meeting, a resolution put to the vote will be decided by a show of hands unless a poll is demanded by:

- the chairman of the meeting;
- not less than five shareholders having the right to vote at such meeting; or
- a shareholder or shareholders representing not less than one tenth of the total voting rights of all shareholders having the right to vote at the meeting or a shareholder or shareholders entitled to vote and holding in aggregate not less than one tenth of Telkom’s issued share capital.

Resolutions will be carried by a majority of the votes recorded at the meeting except in the case of a special resolution which must be passed either on a show of hands, by not less than three fourths of the number of Telkom's shareholders entitled to vote who are present in person, by proxy or by representation or, where a poll has been demanded, by not less than three fourths of the total votes to which the shareholders present in person, by proxy or by representation are entitled.

Annual Report and Accounts

Telkom's board is required to keep such accounting records and books of account as are prescribed by the South African Companies Act, 61 of 1973. Generally, no shareholder, other than a director, has any right to inspect any of Telkom's accounting record books, accounts or documents.

The board is required, in respect of each of Telkom's financial years, to prepare annual consolidated financial statements and present them before the annual general meeting.

Pursuant to the Listings Requirements of the JSE, unaudited interim reports must be distributed to all shareholders within three months after the end of the first six months of Telkom's financial year.

Telkom's consolidated financial statements must, in conformity with IFRS, fairly present the state of affairs and business of Telkom and all of its consolidated subsidiaries at the end of the financial year concerned and the profit or loss of Telkom and all of its consolidated subsidiaries for that financial year.

Changes in Capital

Telkom may from time to time by special resolution:

- consolidate, divide or sub-divide all or any part of Telkom's issued or unissued capital;
- increase or cancel all or any part of Telkom's unissued capital;
- convert any of Telkom's shares, whether issued or not, into shares of another class;
- convert all or any of Telkom's paid-up shares into stock and reconvert such stock into paid-up shares; or
- convert any shares having a par value into shares having no par value and vice versa.

Telkom may from time to time reduce its issued share capital, share premium, stated capital, reserves and/or any capital redemption reserve fund with the approval of an ordinary resolution of Telkom's shareholders in a general meeting and with a resolution of Telkom's directors. Any increase or reduction in Telkom's issued share capital or that of any of Telkom's subsidiaries must be approved by directors as a reserved matter. See Item 6. "Directors, Senior Management and Employees–Directors and Senior Management–Reserved Matters."

Variation of Rights

Whenever Telkom's capital is divided into different classes of shares, the rights attached to any class of shares in issue may be varied, modified or abrogated by special resolution, provided that no variation that adversely affects those rights may be made without the written consent or ratification of the holders of three fourths of the issued shares of that class or a resolution passed in the same manner as a special resolution at a separate general meeting of the holders of such shares.

The affirmative vote or consent of the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be, is required for any amendment, alteration or cancellation of any of the provisions of Telkom's memorandum and articles of association that would alter or change the powers, preferences or special rights of the class A ordinary share or class B ordinary

share or the holder of the class A ordinary share or class B ordinary share, as the case may be, so as to affect either adversely. Telkom's memorandum and articles of association further require Telkom to obtain written consent from the Government before issuing any securities or amending any existing securities in a manner that would adversely affect the Government's right under a special condition set forth in Telkom's memorandum of association, including the creation of a new class of shares or the amendment of the rights attached to an existing class of shares to provide them with rights superior to or equal to or adversely affecting the rights of Government under this condition. This special condition provides, among other things, that Telkom must obtain written consent from the Government before:

- taking any action that would result in Telkom's ceasing to provide telecommunications services under its public switched telecommunications services license in the Republic of South Africa; or
- disposing of assets, the effect of which would materially impair Telkom's ability to fulfill its obligation under its public switched telecommunications services license.

The rights conferred upon the holders of the shares of any class will be deemed not to be directly or indirectly adversely affected by the creation or issue of further shares ranking equally with them or the cancellation of any shares of any other class.

Distribution of Assets on Liquidation

If Telkom is liquidated, whether voluntarily or compulsorily, the assets remaining after the payment of all of Telkom's liabilities and the costs of winding-up shall be distributed among the shareholders in proportion to the numbers of shares held by them, subject to the rights of any shareholders to whom shares have been issued on special conditions and subject to Telkom's right to set-off unpaid capital or premium against the liability, if any, of shareholders. Furthermore, with the authority of a special resolution, the liquidator may divide among the shareholders, in specie or kind, the whole or any part of the assets, whether or not those assets consist of property of one kind or different kinds.

Any winding up or liquidation of Telkom must be authorized as a board reserved matter.

See Item 6. "Directors, Senior Management and Employees–Directors and Senior Management–Reserved Matters."

Purchase of Shares

The South African Companies Act, 61 of 1973, permits loans by a company to its employees, other than directors, for the purpose of purchasing or subscribing for shares of that company or of its holding company.

The procedure for acquisition by a company of its own shares is regulated both by the South African Companies Act, 61 of 1973, and the Listings Requirements of the JSE. The South African Companies Act, 61 of 1973, provides that a company may, by special resolution, if authorized by its memorandum and articles of association, approve the acquisition of its shares; provided that a company may not make any payment in whatever form to acquire any share issued by that company if there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its debts or if the consolidated assets of the company fairly valued would, after the payment, be less than the consolidated liabilities of the company. The South African Companies Act, 61 of 1973, also provides that:

- a subsidiary may acquire up to a maximum of 10% in the aggregate of the number of issued shares of its holding company, or parent company; and
- a company may make payments to its shareholders if authorized by its memorandum and articles of association, subject to the provisions referred to above relating to its ability to pay debts and solvency.

Under South African law and the Listings Requirements of the JSE, the shareholders in a general meeting may approve a specific acquisition by the company of its issued shares or grant the company a general authority to acquire its issued shares by way of a renewable mandate which is valid until the company's next annual general meeting, provided that such authority may not extend beyond 15 months from the date of the granting of the general authority. The general authority is subject to, among other things, the following:

- the acquisition of ordinary shares must be on the "open market" of the JSE;
- the number of ordinary shares that may be acquired pursuant to the general authority may not, in the aggregate, exceed 20% of Telkom's issued share capital in any one financial year; and
- the ordinary shares may not be acquired at a price that is more than 10% above the weighted average of the market value of the ordinary shares for the five business days immediately preceding the date on which the transaction is effected.

At Telkom's annual general meeting held on October 14, 2004, the shareholders of Telkom granted Telkom, through a special resolution, the authority for Telkom or a subsidiary of Telkom to acquire Telkom's issued and outstanding ordinary share capital from time to time, upon such terms and conditions and in such amounts as the directors of Telkom and/or its subsidiaries may from time to time decide, but always subject to the Companies Act, 61 of 1973, as amended, and the listing requirements from time to time of the JSE, which general approval shall endure until the following annual general meeting of Telkom, which was held on October 21, 2005. At this meeting, the shareholders of Telkom provided general approval for the share repurchase program until the next Annual General Meeting or 15 months from the date of the resolution, whichever period is shorter.

Directors

Pursuant to Telkom's articles of association, the holder of the class A ordinary share and the holder of the class B ordinary share, for so long as they hold the class A ordinary share and the class B ordinary share, respectively, are entitled to appoint directors based on the percentage of the issued ordinary shares owned by them as follows:

- if either shareholder owns at least 25% of the issued ordinary shares, it has the right to appoint five directors, including two executive directors;
- if either shareholder owns at least 20%, but less than 25% of the issued ordinary shares, it has the right to appoint four directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, one executive director;
- if either shareholder owns at least 15%, but less than 20% of the issued ordinary shares, it has the right to appoint three directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, three non-executive directors;
- if either shareholder owns at least 10%, but less than 15% of the issued ordinary shares, it has the right to appoint two directors, including, in the case of the Public Investment Corporation, two executive directors and, in the case of the Government, two non-executive directors; and
- if either shareholder owns at least 5%, but less than 10% of the issued ordinary shares, it has the right to appoint one director, including, in the case of the Public Investment Corporation, one executive director and, in the case of the Government, one non-executive director.

Neither the holder of the class A ordinary nor the holder of the class B ordinary share will have the right to appoint more than five directors, regardless of their share ownership.

The remaining directors, if any, other than Telkom's chief executive officer who is appointed by Telkom's board of directors, may be appointed by a general meeting. A general meeting is not entitled to fill a vacancy of a director appointed by the Government or the Public Investment Corporation, as holders of the Class A ordinary share and the Class B ordinary share, respectively.

At each of Telkom's annual general meetings, at least one third of Telkom's directors appointed by a general meeting, excluding executive directors, directors appointed by the holder of the class A ordinary share and the holder of the class B ordinary share and any directors appointed by the directors after the conclusion of Telkom's preceding annual general meeting, are required to retire from office but are eligible for re election. The directors to retire are those who have been longest in office or, as between directors appointed by a general meeting who have been in office for an equal length of time, in the absence of agreement, determined by lot. If, after such retirements, there would remain in office any director appointed by a general meeting who would have held office for three years since his last election, he shall also retire at such annual general meeting. In addition, those directors appointed by a general meeting since the last annual general meeting are required to retire from office. A retiring director is eligible for re election. Directors appointed by the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be, can be removed and replaced at any time upon receipt by Telkom of written notice from the holder of the class A ordinary share or the holder of the class B ordinary share, as the case may be.

The remuneration of Telkom's directors shall be determined from time to time by its directors, taking into account the recommendations of the remuneration committee appointed by Telkom's directors. Telkom's directors shall be paid all their traveling and other expenses properly incurred by them in the execution of their duties in or about Telkom's business, which are approved or ratified by Telkom's directors.

Any director who serves on any committee, devotes special attention to Telkom's business, goes or resides outside of the Republic of South Africa for any of Telkom's purposes, or performs any services that are outside the scope of ordinary duties of a director, may be paid such extra remuneration or allowances as Telkom's directors, excluding the director in question, may determine.

Telkom's articles of association provide that a director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he or she has a material interest, other than by virtue of his or her interest in securities in Telkom and in certain other limited circumstances.

A director may not be counted in the quorum of a meeting in relation to any resolution in which he or she is not permitted to vote.

The directors are not obliged to hold any qualification shares.

Telkom's articles of association grant a director appointed by the Government, as a significant shareholder, the right, for so long as it is a significant shareholder, to nominate certain of the directors that Telkom is entitled to appoint to the boards of directors of its subsidiaries and Vodacom.

The number of directors that the Government is entitled to nominate is based on the ratio of the number of ordinary shares owned by the Government to the sum of the ordinary shares owned by the Government and the Public Investment Corporation, as the class B shareholder.

If the class A ordinary share and/or class B ordinary share are converted into ordinary shares, the rights of the Government and/or the Public Investment Corporation as holders of the class A ordinary share and class B ordinary share, respectively, including their rights of appointment of directors to Telkom's board of directors and the boards of directors of Telkom's subsidiaries and Vodacom, will be terminated.

Borrowing Powers

The directors may exercise all of Telkom's powers to borrow money and to mortgage or encumber Telkom's property or any part thereof and to issue debentures, whether secured or unsecured, whether outright or as security for any debt, liability or obligation of Telkom or of any third party. For this purpose, the borrowing powers of the directors are unlimited. Telkom's borrowing powers have not been exceeded during the past three years.

Non-South African Shareholders

Other than as described under "–Transfer of Shares," there are no limitations in Telkom's memorandum or articles of association on the right of non-South African shareholders to hold or exercise voting rights attaching to any of its ordinary shares.

Rights of Minority Shareholders and Fiduciary Duties

Majority shareholders of South African companies have no fiduciary obligations under South African common law to minority shareholders. However, under provisions in the South African Companies Act, 61 of 1973, a shareholder may, under certain circumstances, seek relief from the court if the shareholder has been unfairly prejudiced. These provisions are designed to provide relief for oppressed shareholders without necessarily overruling the majority's decision. There may also be common law and statutory personal actions available to a shareholder of a company.

The fiduciary obligations of directors may differ from those in the United States and certain other countries. Under South African law, the directors of a company are required to adhere to and act in accordance with two main fiduciary duties, the duty to act in the best interests of the company and the duty to act with due care and skill. The fiduciary duty to act in the best interests of the company includes a duty that the directors must avoid a conflict between their personal interests and the interests of the company, prohibits the directors from using their fiduciary position for personal benefit, prohibits the directors from exceeding the powers of the company and prohibits the directors from exercising any power for an improper or collateral purpose. The fiduciary duty to act with due care and skill includes the requirement that the directors must not act negligently, fraudulently or recklessly and must exercise judgment as to what is in the best interests of the company. South African law provides for personal liability of directors if they conduct the business of the company fraudulently or recklessly. Under Delaware law, the fiduciary duties of directors consist of the duty of care, the duty of loyalty and the duty of disclosure. The fiduciary duty of care requires directors to inform themselves of all material information reasonably available to them prior to making a business decision. The fiduciary duty of loyalty prohibits directors from using their position of trust and confidence to further their private interests. The fiduciary duty of disclosure requires directors to disclose to stockholders all material facts germane to a transaction involving stockholder approval.

Comparison of Shareholders' Rights Under South African and Delaware Law

The following describes some of the material differences between the rights of shareholders under South African and Delaware law.

Voting rights, generally

South Africa

Under South African law, every shareholder in a public company has a vote in respect of the shares held by such shareholder in the issued share capital of the company. The number of votes exercisable by that shareholder is that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by that shareholder bears to the total

amount of the nominal value of all the shares in the company. Any shareholder of a company entitled to attend and vote at a meeting of the company is entitled to appoint another person or persons, whether a member or not, to act for such shareholder by proxy.

Delaware

Under Delaware law, each stockholder is entitled to one vote for each share of capital stock held by the stockholder, unless otherwise provided in the certificate of incorporation of the company. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for the stockholder by proxy for up to three years from its date, or for a longer period if the proxy specifically provides.

Preemptive rights

South Africa

Under South African law, no shareholder shall have preemptive rights to purchase additional securities of a company unless the organizational documents of the company expressly grant preemptive rights. However, the Listings Requirements of the JSE require that unissued ordinary shares of a company listed on the JSE be offered first to existing shareholders in proportion to their holdings of shares of that company unless the shares are issued for the acquisition of assets. See this Item "–Memorandum and Articles of Association–Issue of Additional Shares and Preemptive Rights."

Delaware

Delaware law provides that no stockholder shall have preemptive rights to purchase additional securities of the company unless the certificate of incorporation of the company expressly grants these rights.

Cumulative voting

Cumulative voting is a system for electing directors whereby the number of votes a shareholder is entitled to vote in an election of directors equals the number of shares held by the shareholder multiplied by the number of open directorships. Under cumulative voting, a shareholder may cast all or any number of the shareholder's votes for a single candidate or for any number of candidates.

South Africa

Under South African law, shareholders do not have the right to elect directors by cumulative voting. The number of votes that a shareholder may cast in respect of the appointment of each individual director equals the number of votes generally exercisable by that shareholder. South African law provides that at a general meeting of a company, a motion for the appointment of two or more persons as directors of the company by a single resolution shall not be moved, unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it.

Delaware

Under Delaware law, stockholders do not have the right to elect directors by cumulative vote unless the right is granted in the company's certificate of incorporation.

Shareholder approval of corporate matters by written consent

South Africa

Under South African law, any action required to be taken at any annual or other general meeting of a company, other than actions requiring a special resolution, may be taken without a meeting, without prior notice and without a formal vote, if the required written consent setting forth that action to be taken and waiving the required prior notice is signed by all shareholders.

Delaware

Under Delaware law, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior written notice and without a vote, if a written consent setting forth the action to be taken is signed by the number of holders of outstanding stock that would be necessary to authorize or take the action at a meeting at which all shares entitled to vote thereon were present and voted, unless otherwise provided in the certificate of incorporation of the company. Prompt notice of the taking of any action by less than unanimous consent must be given to shareholders who did not consent to the action.

Anti-takeover provisions

South Africa

Under the South African Companies Act, 61 of 1973, the South African Securities Regulation Panel, or SRP, regulates certain transactions and schemes aimed at the take-over of companies such as Telkom in order to ensure the equal treatment of shareholders. For this purpose, the SRP has promulgated a code, which is loosely based on the U.K. City Code on Take-Overs and Mergers, setting out general principles and specific rules regulating take-overs and mergers. The SRP requires that a mandatory offer be made to shareholders, at specified prices, in circumstances where:

- the offeror acquires more than 35% of the votes exercisable at a general meeting of a company, if the offeror, prior to the acquisition, held less than 35% of such votes; or
- the offeror acquires more than 5% of such votes during any twelve month period, if the offeror, prior to the acquisition, held more than 35%, but less than 50% of such votes.

The SRP code also sets out comprehensive rules regulating the procedures to be followed and the manner in which the offer should be made. In addition, under the JSE Listings Requirements, a company listed on the JSE is required to obtain shareholder approval for any transaction between that company and a "material" shareholder if the JSE considers that shareholder to have a significant interest in or influence over the company. A "material" shareholder is any person who is or within twelve months preceding the date of the transaction was entitled to exercise or controls the exercise of 10% or more of the votes permitted to be cast at a general meeting of the company.

Delaware

Delaware law contains a business combination statute that protects Delaware companies from hostile takeovers and from actions following the takeover by prohibiting some transactions once an acquirer has gained a significant holding in the company.

Section 203 of the Delaware General Corporation Law prohibits "business combinations," including mergers, sales and leases of assets, issuances of securities and similar transactions by a company or a subsidiary with an interested stockholder that beneficially owns 15% or more of a company's voting stock, within three years after the person becomes an interested stockholder, unless:

- the transaction that will cause the person to become an interested stockholder is approved by the board of directors of the target prior to the transaction;
- after the completion of the transaction in which the person becomes an interested stockholder, the interested stockholder holds at least 85% of the voting stock of the company not including shares owned by persons who are directors and also officers of interested stockholders and shares owned by specified employee benefit plans; or
- after the person becomes an interested stockholder, the business combination is approved by the board of directors of the company and authorized at an annual, or special, meeting of stockholders by the affirmation vote of the holders of at least 66.67% of the outstanding voting stock, excluding shares held by the interested stockholder.

A Delaware company may elect not to be governed by Section 203 by a provision contained in the original certificate of incorporation of the company or an amendment to the original certificate of incorporation or to the bylaws of the company, which amendment must be approved by a majority of the shares entitled to vote and may not be further amended by the board of directors of the company. This amendment is not effective until twelve months following its adoption.

Shareholder access to and inspection of corporate records

South Africa

According to South African law, the register of members of a company is open to inspection by any shareholder or his or her duly authorized agent. Any person may apply to a company for a copy of or extract from the register of shareholders, and the company shall either furnish such copy or extract or afford such person adequate facilities for making such copy or extract. If access to the register of shareholders for the purpose of making any inspection or any copy or extract or facilities for making any copy or extract is refused or not granted or furnished within fourteen days after a written request to that effect has been delivered to the company, the company, and any director or officer of the company who knowingly is a party to the refusal or default, shall be guilty of an offense. The person denied access may apply to court for relief.

Delaware

Delaware law allows any stockholder to inspect and make copies of the stock ledger and the other books and records of a Delaware company for a purpose reasonably related to that person's interest as a stockholder. If the company refuses to permit an inspection or does not reply to the demand within five business days, the stockholder may apply to the Delaware Court of Chancery for an order to compel the inspection.

Duties of directors and officers

South Africa

According to South African law, the business and affairs of every company are managed by the board of directors as provided in the company's organizational documents. The board of directors shall consist of one or more members, each of whom shall be a natural person. The actual number of directors shall be fixed by the company's organizational documents. Directors need not be shareholders unless required by the organizational documents. The organizational documents may prescribe other qualifications for directors as well.

According to South African law, a public company such as Telkom is required to appoint a company secretary and a public officer. In addition, a public company may appoint further officers in accordance with its organizational documents with such titles and duties as may be set out in the

organizational documents or as may be determined by the company. Any share certificates signed by two directors of the company, or one director and one other officer of the company authorized by the directors for such purpose, evidences title to the shares concerned. The duties of the company secretary of a company include ensuring that minutes of all shareholders' meetings, directors' meetings and meetings of any board committees are properly recorded.

Delaware

According to Delaware law, the business and affairs of every company are managed by the board of directors as provided in the company's certificate of incorporation. The board of directors consists of one or more members, each of whom is a natural person. The actual number of directors shall be fixed by the company's bylaws or in its certificate of incorporation. Directors need not be stockholders unless required by the bylaws or certificate of incorporation. The bylaws or certificate of incorporation may prescribe other qualifications for directors as well.

Delaware law also requires every company to have officers with titles and duties as are stated in the bylaws or in a resolution of the board of directors, which is not inconsistent with the bylaws and as may be necessary to enable the company to sign instruments and stock certificates. One of the officers shall have the duty to record the proceedings of the meetings of the stockholders and directors. Officers are chosen in the manner and hold their offices for the terms prescribed by the bylaws or determined by the board of directors or other governing body.

Meetings

South Africa

South African law requires every company to hold an annual general meeting not more than nine months after the end of every financial year of the company and within not more than fifteen months after the date of the last annual general meeting of the company. If for any reason an annual general meeting of the company is not or cannot be held in this manner, the South African Registrar of Companies may, on application by the company or any shareholder or its legal representative, call or direct the calling of a general meeting of the company which shall be deemed to be an annual general meeting. South African law requires that the annual financial statements of the company as well as group financial statements be considered at the annual general meeting. Furthermore, the company's auditor must be appointed at the annual general meeting and the meeting must address the business which is required to be dealt with pursuant to the organizational documents of the company. Directors are appointed by a general meeting, unless otherwise provided in the organizational documents of the company. The JSE Listings Requirements require that the appointment of a director to fill a casual vacancy or as an addition to the board must be confirmed at the next annual general meeting of the company.

General meetings of the company may, except insofar as is otherwise provided in the organizational documents of the company, be called by the board of directors in accordance with the organizational documents of the company or by two or more shareholders holding not less than one tenth of its issued share capital.

Delaware

Under Delaware law, unless directors are elected by written consent in lieu of an annual meeting, an annual meeting of the stockholders shall be held for the election of directors on a date and at a time designated by the company's bylaws. Stockholders may, unless the certificate of incorporation provides otherwise, act by written consent to elect directors. In addition, any other proper business may be transacted at the annual meeting. If an annual meeting is not held within 30 days of the date designated for such a meeting, or is not held for a period of 13 months after the last annual meeting,

the Delaware Court of Chancery may summarily order a meeting to be held upon the application of any shareholder or director.

Delaware law also permits special meetings of shareholders to be called by the board of directors and by other persons authorized to do so by the company's certificate of incorporation or bylaws.

Dividends

South Africa

Under South African law, a company may make payments to its shareholders if authorized thereto by its organizational documents. A company may not make any payment, in whatever form, to its shareholders if there are reasonable grounds for believing that:

- the company is or would, after the payment, be unable to pay its debts as they become due in the ordinary course of business; or
- the consolidated assets of the company fairly valued, after the payment, would be less than the consolidated liabilities of the company.

Delaware

Under Delaware law, the directors of a company may declare and pay dividends out of surplus or, when no surplus exists, out of net profits for the fiscal year in which the dividend is declared or the preceding fiscal year, subject to any restrictions in the company's certificate of incorporation. Dividends may not be paid out of net profits if, after payment of the dividend, the capital of the company would be less than the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

Repurchase or redemption of shares

South Africa

South African law provides that a company may, by special resolution, if authorized by its memorandum and articles of association, repurchase or redeem its shares; provided that a company shall not make any payment to repurchase any shares issued by the company if there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its debts or if the consolidated assets of the company would, after the payment, be less than the consolidated liabilities of the company.

Delaware

Delaware law permits a company to repurchase or redeem its shares, provided, however, that no company shall do so when the capital of the company is impaired or when the purchase or redemption would cause any impairment of the capital of the company, except that a company may purchase or redeem out of its capital any of its own shares which are entitled upon any distribution of the company's assets, whether by dividend or liquidation, to a preference over another class or series of its stock, or, if no shares entitled to such a preference are outstanding, any of its own shares, if the shares will be retired upon their acquisition and the capital of the company reduced in accordance with Delaware law.

Limitations of liability of directors

South Africa

Under South African law, any provision, whether contained in the organizational documents of a company or in any contract with a company, that purports to exempt any director or officer of the company from any liability which by law would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which the person may be guilty in relation to the company or to indemnify the person against any such liability is void. A company may, however, indemnify a director or officer as described in this Item "–Indemnification of officers and directors–South Africa." If, in any proceedings for negligence, default, breach of duty or breach of trust against any director or officer of a company, it appears to the court that the person concerned is or may be liable, but that the person has acted honestly and reasonably, and that, considering all facts and circumstances of the case, including those concerned with the person's appointment, the person ought fairly to be excused for the wrongdoing, the court may relieve the person, either wholly or partly, from liability on terms determined by the court.

Delaware

Delaware law permits a company to include a provision in its certificate of incorporation eliminating or limiting the personal liability of a director to the company or its shareholders for damages for breach of the director's fiduciary duty, provided that a director's liability shall not be limited:

- for any breach of the director's duty of loyalty to the company or its shareholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law, which concerns unlawful payments of dividends, stock purchases or redemption; or
- for any transaction from which the director derived an improper personal benefit.

Indemnification of officers and directors

South Africa

Under South African law, the organizational documents of a company may contain a provision indemnifying any director or officer or auditor in respect of any liability incurred by such person in defending any proceedings, whether civil or criminal, in which judgment is given in the person's favor, in which the person is acquitted or the proceedings are abandoned or in connection with any application in which the court relieves the person from liability on the basis that the person acted honestly and reasonably and that the person ought fairly to be excused for negligence, default, breach of duty or breach of trust.

Delaware

Delaware law provides that, subject to certain limitations in the case of derivative suits brought by a company's stockholders in its name, a company may indemnify any individual who is made a party to any third party suit or proceeding on account of being a director, officer, employee or agent of the company against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement reasonably incurred by the officer or director in connection with the action, through, among other things, a majority vote of the directors who were not parties to the suit or proceeding, even if less than a quorum, if the individual:

- acted in good faith and in a manner the officer or director reasonably believed to be in or not opposed to the best interests of the company or, in some circumstances, at least not opposed to its best interests; and
- in a criminal proceeding, had no reasonable cause to believe the officer's or director's conduct was unlawful.

To the extent a director, officer, employee or agent is successful in the defense of the action, suit or proceeding, the company is required by Delaware law to indemnify the individual for reasonable expenses incurred thereby.

Material Contracts

See Item 4. "Information on the Company–Business Overview–Fixed–line Communications–Fees and tariffs–Interconnection tariffs" and Item 7. "Major Shareholders and Related Party Transactions" for certain material agreements we have entered into.

EXCHANGE CONTROLS

The following is a summary of the relevant material South African exchange control measures, which has been derived from publicly available documents. The following summary is not a comprehensive description of all of the exchange control regulations and does not cover exchange control consequences that depend upon your particular circumstances. We recommend that you consult your own advisor about the exchange control consequences in your particular situation. The discussion in this section is based on current South African laws and regulations. Changes in laws may alter the exchange control provisions that apply to you, possibly on a retroactive basis.

Introduction

Dealing in foreign currency, the export of capital and/or revenue, incurring of liabilities by residents to non-residents and various other exchange control matters in South Africa are regulated by the South African exchange control regime and regulations. The South African exchange control regime forms part of the general monetary policy of South Africa. The South African exchange control regulations are issued pursuant to section 9 of the Currency and Exchanges Act, 9 of 1933. Pursuant to the regulations, the control over South African capital and/or revenue reserves, as well as their accruals and spending, is vested in the Minister of Finance.

The Minister of Finance has delegated the administration of exchange controls to the Exchange Control Department of the South African Reserve Bank, or Excon, which is responsible for the day to day administration and functioning of exchange controls. Excon has wide discretion but exercises its powers within certain policy guidelines and issues circulars and rulings from time to time. Within prescribed limits, authorized dealers in foreign exchange are permitted to deal in foreign exchange in accordance with the provisions and requirements of the rulings and circulars, which contain certain administrative measures, as well as conditions and limits applicable to transactions in foreign exchange, which may be undertaken by authorized dealers. Non-residents have been granted general approval to deal in South African assets and to invest and disinvest in South Africa in terms of the rulings and circulars.

The Republic of South Africa's exchange control regulations provide for restrictions on exporting capital from the Common Monetary Area, consisting of the Republic of South Africa, the Republic of Namibia, and the Kingdoms of Lesotho and Swaziland. Transactions between residents of the Common Monetary Area, on the one hand, including companies, and non-residents of the Common Monetary Area, on the other hand, are subject to these exchange control regulations.

There are many inherent disadvantages of exchange controls including the distortion of the price mechanism, the problems encountered in the application of monetary policy, the detrimental effects on inward foreign investment and the administrative costs associated therewith. The South African Minister of Finance has indicated that all remaining exchange controls are likely to be dismantled as soon as circumstances permit. There has, since 1996, been a gradual relaxation of exchange controls. The gradual approach to the abolition of exchange controls adopted by the Government of South Africa is designed to allow the economy to adjust more smoothly to the removal of controls that have been in place for a considerable period of time. The stated objective of the authorities is equality of treatment between residents and non-residents with respect to inflows and outflows of capital. The focus of regulation, subsequent to the abolition of exchange controls, is expected to favor the positive aspects of prudential financial supervision.

The present exchange control regime in South Africa is used principally to control cross border capital movements. South African companies are not permitted to maintain foreign bank accounts and, without the approval of Excon, are generally not permitted to export capital from South Africa or to hold foreign currency. In addition, South African companies are required to obtain the approval from Excon prior to raising foreign funding on the strength of their South African balance sheets, which would permit recourse to South Africa in the event of defaults. Where 75% or more of a South African company's capital, voting power, power of control or earnings is directly or indirectly controlled by non-residents, such a company is designated an "affected person" and certain restrictions are placed on its ability to obtain local financial assistance. Telkom is not, and has never been, designated an affected person.

Foreign investment and outward loans by South African companies are also restricted. In addition, without the approval of Excon, South African companies are generally required to repatriate to South Africa profits of foreign operations and are limited in their ability to utilize profits of one foreign business to finance operations of a different foreign business. South African companies establishing subsidiaries, branches, offices or joint ventures abroad are generally required to submit financial statements on these operations to Excon on an annual basis. As a result, a South African company's ability to raise and deploy capital outside the Common Monetary Area is restricted.

Although exchange controls have been gradually relaxed since 1996, unlimited outward transfers of capital are not permitted at this stage. The Government has announced its intention to remain committed to a gradual approach to exchange control liberalization. Part of this process of gradual exchange control liberalization and financial sector strengthening is the shift to a system of prudential regulation. Prudential regulations are applied internationally to protect policyholders and pensioners from excessive risk, and typically include restrictions on foreign asset holdings. It is not possible to predict when existing exchange controls will be abolished or modified by the South African Government in the future, although some of the more salient changes to the South African exchange control provisions over the past few years have been as follows:

- As an interim step towards prudential regulation, institutional investors comprised of retirement funds, long term insurers, collective investment scheme management companies and investment managers are allowed to transfer funds from South Africa for investment abroad, subject to certain limitations as follows:
  - The exchange control limit on foreign portfolio investment by institutional investors is applied to an institution's total retail assets.
  - The foreign exposure of retail assets may not exceed 15% in the case of retirement funds and long term insurers and 25% in the case of collective investment scheme management companies and investment managers registered as institutional investors for exchange control purposes.
  - Institutional investors will, on application, be allowed to invest an additional five per cent of their total retail assets by acquiring foreign currency denominated portfolio assets in Africa through foreign currency transfers from South Africa or by acquiring inward listed securities.

- In October 2002, the exchange control allowance for foreign direct investment into Africa was increased from R750 million to R2 billion, in line with South Africa's commitment to the New Partnership for Africa's Development, or NEPAD. In order to facilitate global expansion of South African companies from a domestic base, the exchange control allowances for direct investment outside of Africa was increased from R500 million to R1 billion. In October 2004 the previous Exchange Control limits imposed on new foreign direct investments by South African companies were abolished, subject to certain provisions which relate to the Exchange Control Department of the South African Reserve Bank's investment criteria. Companies wishing to establish new overseas ventures or new ventures in Africa are now permitted to transfer unlimited amounts abroad in order to finance approved investments. However, the approval of Excon is required in advance and companies will need to comply with Excon's investment criteria in establishing such new ventures, which investment criteria include, among other things, demonstrating benefit to South Africa and control of the foreign entity. Excon has however reserved the right to stagger capital outflows relating to very large foreign investments in order to manage the potential impact on the foreign exchange market.

- Dividends repatriated from abroad by South African companies during the period February 26, 2003 to October 26, 2004 (dividend credits) automatically form part of domestic funds and may be allowed to be retransferred abroad for the financing of approved foreign direct investments or approved expansions, but may not be transferred abroad for any other purpose.

- After October 26, 2004, a South African holding company may retain dividends declared by their offshore subsidiaries offshore, which may be used for any purpose, without any recourse to South Africa. Foreign dividends repatriated to South Africa after October 26, 2004 may be retransferred abroad at any time and used for any purpose, provided there is no recourse to South Africa. Such funds may, however, under no circumstances be utilized to fund investments/loans into the Common Monetary Area for any purpose whatsoever via a roundtripping structure, except if invested in approved inward listed instruments, such as foreign inward listed securities issued on the JSE.

- Remittance of directors' fees payable to persons permanently resident outside the Common Monetary Area may be approved by authorized dealers, pursuant to the rulings.

Authorized dealers in foreign exchange may, against the production of suitable documentary evidence, provide forward cover to South African residents in respect of fixed and ascertained future foreign exchange commitments covering the movement of goods.

A system of exchange control allowances for the export of funds when persons emigrate has been in place in South Africa for a number of decades. Persons who emigrate from South Africa are entitled to take limited amounts of money out of South Africa by way of a cash allowance R160 000 per person which is equal to a travel allowance of R160,000 per adult and R50,000 per child under 12 in a family) and a foreign capital allowance (R2,000,000 per person with a limit of R4,000,000 per family unit) and may export certain items. The balance of the emigrant's funds are blocked and held under the control of an authorized dealer. These blocked funds may only invested in prescribed investments including:

- blocked current, savings, interest bearing deposit accounts in the books of an authorized dealer in the banking sector;

- securities listed on the JSE and financial instruments listed on the Bond Exchange of South Africa which are deposited with an authorized dealer and not released except temporarily for switching purposes, without the approval of Excon. Authorized dealers must at all times be able to demonstrate that listed securities or financial instruments which are dematerialized or immobilized in a central securities depositary are being held subject to the control of the authorized dealer concerned;

- mutual funds units; or

- the South African Futures Exchange.

Aside from the investments referred to above, blocked Rands may only be utilized for very limited purposes. Capitalization shares and dividends declared out of capital gains or out of income earned prior to emigration remain subject to the blocking procedure. Emigrants' blocked assets may be unwound and such emigrants are entitled, on application to Excon and subject to an exiting schedule and an exit levy of 10%, to exit such blocked assets from South Africa.

Sales of Shares

Under present regulations, our ordinary shares and ADSs are freely transferable outside the Common Monetary Area between non-residents of the Common Monetary Area. In addition, the proceeds from the sale of ordinary shares on the JSE on behalf of shareholders who are not residents of the Common Monetary Area are freely remittable to such shareholders. Share certificates held by non-residents will be endorsed with the words "non-resident."

Dividends

Other than non-cash dividends and dividends of a capital nature, which require specific Excon approval, dividends declared in respect of shares held by a non-resident in a company whose shares are listed on the JSE are freely remittable. See Item 3. "Key Information–Dividends and Dividend Policy."

Any cash dividends paid by us are expected to be paid in Rands. Holders of ADSs on the relevant record date will be entitled to receive any dividends payable in respect of the shares underlying the ADSs, subject to the terms of the deposit agreement. Subject to exceptions provided in the deposit agreement, cash dividends paid in Rands will be converted by the depositary to Dollars and paid by the depositary to holders of ADSs, net of conversion expenses of the depositary, in accordance with the deposit agreement. The depositary will charge holders of ADSs, to the extent applicable, taxes and other governmental charges and specified fees and other expenses. See Item 3. "Key Information–Dividends and Dividend Policy."

Shareholders who are not residents of the Common Monetary Area who are in receipt of scrip dividends and who elect to dispose of the relevant shares, may remit the proceeds arising from the sale of the relevant shares.

TAXATION

The following is a summary of the material South African and US tax consequences in connection with the acquisition, ownership and disposition of Telkom's ordinary shares and ADSs. The following summary is not a comprehensive description of all of the tax considerations that may be relevant to a decision to acquire purchase, own or dispose of Telkom's shares or ADSs and does not cover tax consequences that depend upon your particular tax circumstances. This discussion is only a general discussion; it is not a substitute for tax advice.

We recommend that you consult your own tax advisor about the consequences of holding Telkom's ordinary shares or ADSs, as applicable, in your particular situation. The discussion in this section is based on current law. Changes in laws may alter the tax treatment of Telkom's ordinary shares or ADSs, as applicable, possibly on a retroactive basis.

South African Tax Matters

Withholding tax on dividends

The Republic of South Africa does not impose withholding tax on dividends. Accordingly, we are not obliged to withhold any tax on dividends paid by us to our shareholders whether or not such shareholder is resident in the Republic of South Africa. Any future decision to re-impose a withholding tax on dividends declared by South African residents to non-resident shareholders is generally permissible under the terms of a reciprocal tax treaty entered into between the Republic of South Africa and the United States in 1997. That treaty, however, provides that any withholding tax introduced in the future shall be limited to:

- 5% of the gross amount of the dividends declared, provided that the beneficial owner of the shares on which the relevant dividends are declared is a company holding at least 10% of the voting stock of the relevant company declaring such dividend; and
- 15% of the gross amount of the dividends declared by the relevant company in all other cases.

Although no withholding tax is payable on dividends declared by a South African resident, South Africa has a secondary tax on companies, or STC, which is 12.5% of the net amount of the dividend. Although the STC is the liability of the South African resident company which declares the dividend, it would reduce the amount available for distribution. See "–Secondary tax on companies."

Income taxes relating to shareholders

In principle, South African residents are taxed on their worldwide income regardless of the source thereof. Non-residents are, subject to certain exemptions, taxed in relation to income derived from a source within or deemed to be within the Republic of South Africa. These exemptions include normal dividends received from South African companies, such as Telkom; interest received from sources in the Republic of South Africa, including on stocks or securities issued by the government, provided the non-resident is (a) a natural person who was not physically in South Africa for more than 183 days during the particular tax year or (b) at any time in that tax year did not carry on business through a permanent establishment in South Africa.

Under South African tax law, a natural person is a resident if the person is ordinarily resident in the Republic of South Africa or, if not ordinarily resident during any particular year of assessment for tax purposes, the person was physically present in the Republic of South Africa for certain prescribed periods in the five years prior to and during the tax year in question. Non-natural persons, including companies and trusts, are deemed to be resident in the Republic of South Africa for tax purposes if they were incorporated or formed in the Republic of South Africa or have their place of effective management in the Republic of South Africa. However, a person, natural or non-natural, is not a

resident of the Republic of South Africa if that person is deemed to be exclusively a resident of another country in terms of a double taxation agreement entered into between the Republic of South Africa and that other country.

Generally, income tax is payable on the profits derived from the disposal of shares in a South African company by residents of the Republic of South Africa if the profits derived from such disposal are of a revenue nature as opposed to a capital nature. Essentially, a profit is viewed as being of a revenue nature if it is made pursuant to the operation of a business or scheme of profit making and not incidentally or as a result of a mere realization of a share held for long-term investment purposes. In determining whether the income derived from the disposal of such shares is of a capital or revenue nature, the South African tax authorities and courts look at, among other things, the intention of the holder of the shares to determine whether the disposal gave rise to a capital or a revenue profit. Currently profits derived from the disposal of South African shares held as long-term investments are generally regarded to be profits of a capital nature and are not subject to South African income tax, but may be subject to capital gains tax. See "–Capital gains tax" for a discussion of the imposition of capital gains tax. Generally, the distribution of profits by way of dividends paid by a South African resident company, such as Telkom, in the ordinary course, is not deductible by the company and is exempt from South African taxation for the recipient.

If a non-resident shareholder trades in South African shares, such non-resident shareholder would be subject to South African income tax if the proceeds from the disposal would be seen as being from a South African source, which would generally be the case where the trading activities take place in South Africa.

To the extent that any share is acquired at a discount to market price, or any other benefit is derived from the acquisition of the share, there is a risk that the relevant discount benefit could be regarded as an income tax taxable benefit in the hands of the relevant shareholder if that shareholder is an employee or director of Telkom and that share was acquired from Telkom, its associated institutions or a third party by arrangement with it, or if that shareholder is an employee of the Government of the Republic of South Africa and that share was acquired from the Government, its associated institutions or a third party by arrangement with it.

Should a resident of the United States be subject to South African income tax pursuant to the South African legislation, the tax treaty between South Africa and the United States may provide such resident with tax relief. The tax treaty between South Africa and the United States provides that profits of an enterprise of a US resident shall only be taxed in South Africa if such US resident carries on a business in South Africa through a permanent establishment situated in South Africa. Thus if South Africa has taxing rights to any profits generated by the disposal of shares by a US resident to the extent that such US resident carries on business through a permanent establishment in South Africa and the share dealing activities form part of such permanent establishment's business, the US resident will, in principle, be taxed on the profits of the disposal to the extent that such profits are from a source within or deemed to be within South Africa.

Income taxes

As discussed above, income tax is levied in the Republic of South Africa only on income which is classified to be of a revenue nature. South African companies are subject to corporate income tax of 29% of their taxable income. See "–Secondary tax on companies."

Capital gains tax

Capital gains tax was introduced into the South African taxation system with effect from October 1, 2001. Capital gains tax was introduced by way of an amendment to the South African Income Tax Act, 58 of 1962, to incorporate therein a substantive new schedule known as the Eighth

Schedule. The relevant capital gains tax rates are summarized in the table below.

Capital gains tax is imposed on certain capital gains arising from the disposal or deemed disposal of an asset and a prescribed portion of the capital gain, as set out in the table below, will be included in a taxpayer's taxable income. An asset is very broadly defined in the legislation and includes shares in a South African company. If, however, the profits of the disposal were subject to income tax, no capital gains tax liability would arise.

Capital gains or losses are calculated separately with respect to each asset disposed of during the tax year and then aggregated to ultimately calculate the taxpayer's total taxable capital gain or loss. Each capital gain is determined by deducting from the proceeds accruing to the taxpayer from the relevant disposal, the base cost of the asset and any portion of the proceeds already subject to income tax. The base cost includes all direct costs in respect of the acquisition, permanent improvements and disposal of the asset. The net capital gain for the tax year, in the case of natural persons and certain special trusts only, is reduced by an annual exclusion of R12,500.

The following table sets out the prescribed portion of a capital gain that would be included in a taxpayers' taxable income, the normal tax rates applicable to taxpayers and, consequently, the effective rate at which capital gains are taxed:

Type of taxpayer	Prescribed portion of the capital gain included in taxable income expressed as a percentage (%)	Statutory income tax rate (%)	Effective rate (%)
Individuals	25	0 – 40	0 – 10
Retirement funds	n/a	n/a	n/a
Trusts			
Special	25	0 – 40	0 – 10
Other	50	40	20
Life assurers.	–	–	–
Individual policyholder fund	25	30	7.5
Company policyholder fund	50	29	14.5
Corporate fund	50	29	14.5
Untaxed policyholder fund	–	–	–
Companies	50	29	14.5
Permanent establishments (branches)	50	34	17
Small business corporations	50	0 – 29	0 – 14.5
Employment companies	50	34	17
Collective investment schemes	n/a	n/a	n/a

The legislation makes provision, in certain circumstances, for a set-off of capital losses against capital gains and a carry forward of capital losses.

To the extent a non-resident makes a capital gain on the disposal of shares, such gain will be taxed in South Africa only if: (a) the shares form part of the assets of a permanent establishment through which trade is carried on in South Africa or (b) the shares held by the non-resident, alone or with any connected person, represent at least 20% of the equity of a company and 80% or more of the net value of the non-trading assets of such company, such as Telkom, comprise immovable property located in South Africa. However, pursuant to the tax treaty between South Africa and the United States, South Africa only has taxing rights to the extent that the shares disposed of form part of the business property of a permanent establishment in South Africa.

Stamp duty

South African stamp duty, or uncertificated securities tax in an electronic environment, is payable on the registration of transfer of shares, or a change in their beneficial ownership, in a South African company. South African stamp duty is generally payable where shares are not listed on a securities exchange in the Republic of South Africa at the rate of 0.25% of the arm's length consideration payable for the shares concerned or their market value, whichever is greater. In respect of transactions involving shares listed on a securities exchange in South Africa, uncertificated securities tax is payable at the same rates as set out above on every change in beneficial ownership thereof pursuant to the Uncertificated Securities Tax Act, 31 of 1998.

South African stamp duty or uncertificated securities tax is generally payable on the registration of the transfer or change in beneficial ownership of the shares in the records of a South African company regardless of whether the transfer is executed within or outside South Africa. There are certain exceptions to the payment of stamp duty where, for example, the instrument of transfer is executed outside South Africa and registration of transfer is effected in any branch register kept by the relevant company outside of South Africa, subject to certain provisions set forth in the South African Stamp Duties Act, 77 of 1968. Transfers of ADSs are not subject to South African stamp duty or uncertificated securities tax; however, if shares are withdrawn from the deposit facility, stamp duty or uncertificated securities tax is payable on the subsequent transfer of the shares. An acquisition of shares from the depositary by an investor in exchange for ADSs representing the shares, including an acquisition upon termination of a deposit arrangement, may render an investor liable to South African stamp duty or uncertificated securities tax at the same rate as stamp duty or uncertificated securities tax on a subsequent transfer of shares, upon the registration of the investor as the holder or new beneficial owner of shares.

Secondary tax on companies (STC)

STC is payable in the Republic of South Africa by resident companies of the Republic of South Africa at a rate of 12.5% based on the net amount of dividends declared by a company during any dividend cycle. The net amount of dividends declared by a company is the excess of the dividends declared by the company over the amount of certain dividends accruing to the company during the relevant dividend cycle. A dividend cycle runs from the date of accrual of a dividend to the shareholders to the next shareholder accrual date. Any excess of dividends accruing to a company in a relevant dividend cycle, excluding those foreign dividends which are not exempt from South African income tax, over the dividends paid in such cycle are carried forward by the company to the succeeding dividend cycle as an STC credit.

The imposition of STC, together with the corporate income tax discussed above, effectively imposes a dual corporate tax system in the Republic of South Africa with the liability for each of STC and normal corporate income tax being separately determined. Accordingly, a company without a normal tax liability may have a liability for STC, and vice versa, and may be liable for both normal tax and STC on profits distributed. STC creates a maximum effective tax rate on companies of 36.89%. Capitalization shares awarded and distributed in lieu of cash dividends do not incur STC at that stage and listed South African companies often offer capitalization shares in lieu of cash dividends. No South African tax, including withholding tax, is payable in respect of the receipt of these shares by the recipients thereof. However, STC will arise to the extent capitalized profits used to award the capitalization shares are subsequently paid to shareholders whether in connection with a liquidation or reconstruction of the company or a repayment of capital, including a share buy-back.

United States Tax Matters

The following discussion sets forth the material US federal income tax consequences of the ownership and disposition of our ordinary shares or ADSs relevant to US holders, and in certain circumstances, non-US holders, as of the date of this annual report. This discussion is based on the US Internal Revenue Code of 1986, as amended, referred to herein as the Code, and existing final, temporary and proposed Treasury Regulations, rulings and judicial decisions, all as of the date hereof and all of which are subject to prospective or retroactive changes, which could affect the tax consequences as described below.

This discussion does not purport to address all US federal income tax consequences that may be relevant to a particular investor. This discussion applies to you only if you hold our ordinary shares or ADSs, as applicable, as a capital asset for US federal income tax purposes, generally, assets held for investment, within the meaning of Section 1221 of the Code. This discussion does not address the tax consequences that may be relevant to you if you are a member of a class of holders subject to special rules, including:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- insurance companies;
- tax-exempt organizations;
- persons that hold our ordinary shares or ADSs as part of a straddle or a hedging, integrated, constructive sale or conversion transaction for US federal income tax purposes;
- persons whose functional currency for US federal income tax purposes, as defined in Section 985 of the Code is not the US Dollar;
- persons resident or ordinarily resident in South Africa;
- persons liable for alternative minimum tax;
- persons that own, or are treated as owning, directly, indirectly or constructively, ten percent or more of the total combined voting power of our ordinary shares or ADSs;
- a US expatriate or former long-term resident of the US;
- a person who acquired our ordinary shares or ADSs as compensation;
- a regulated investment company; or
- a real estate investment trust.

Further, this discussion does not address the indirect consequences to holders of equity interests in entities, for instance, partnerships, that own our ordinary shares or ADSs. In addition, this discussion does not address any aspect of US federal gift or estate tax, or the state, local or non-US tax consequences of an investment in our ordinary shares or ADSs.

For purposes of the discussion below, you are a US holder if you are a beneficial owner of our ordinary shares or ADSs who or which is:

- a citizen or resident of the United States;
- a corporation, or entity taxable as a corporation, that was created or organized in or under the laws of the United States or any state of the United States, including the District of Columbia;

- an estate, the income of which is subject to US federal income tax regardless of its source; or
- a trust if: (a) a court within the United States is able to exercise primary supervision over its administration and one or more US persons, as defined in Section 7701(a)(30) of the Code, have the authority to control all substantial decisions of the trust or (b) the trust was in existence on August 20, 1996, and on August 19, 1996 was treated as a domestic trust and has elected to be treated as a US person.

A non-US holder is a beneficial owner of our ordinary shares or ADSs who is not a US holder.

Tax consequences to US holders

For US federal income tax purposes, if you are the beneficial owner of ADSs you will be treated as the beneficial owner of the underlying ordinary shares represented by the ADSs.

Distributions

Subject to the passive foreign investment company discussion below, any distributions, other than ordinary shares, distributed pro rata to a US holder with respect to our ordinary shares or ADSs will be a dividend to such US holder to the extent those distributions are made out of our current and accumulated earnings and profits, as determined for US federal income tax purposes. Any such dividend generally will be included in your gross income as foreign source dividend income on the date the distribution is received or, in the case of a US holder of ADSs, on the date of receipt by the depositary. Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital, reducing your tax basis in the ordinary shares or ADSs. Any such distribution in excess of your tax basis in the ordinary shares or ADSs will be treated as capital gain and will be either long-term or short-term depending upon whether you have held the ordinary shares or ADSs for more than one year. Generally, the maximum tax rate on qualified dividends is 15% for individuals for tax years 2003 through 2008. We expect our dividends to be qualified dividends as long as our ordinary shares or ADSs continue to be readily tradable on the New York Stock Exchange, you have held our ordinary shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date, and we are not a passive foreign investment company, or a PFIC, for US federal income tax purposes in the taxable year in which we pay a dividend and were not a PFIC in the preceding taxable year, provided certain other requirements are met. Each individual US holder is urged to consult his or her own tax advisor regarding the availability to him or her of the reduced dividend tax rate in light of his or her own particular situation.

Dividends paid by us will not be eligible for the dividends received deduction available to certain US corporate shareholders. Because we do not calculate our earnings and profits under US rules, you will not be able to demonstrate that a distribution is not out of earnings and profits.

We expect to pay distributions on the ordinary shares and ADSs in South African Rands. Dividends paid in South African Rands generally will be included in your gross income in a US Dollar amount calculated by reference to the exchange rate in effect on the day you, in the case of ordinary shares, or the depositary, in the case of ADSs, receive the dividend, regardless of whether the payment is converted into US Dollars at that time. Any foreign currency gain or loss that you recognize on a subsequent conversion of Rands into US Dollars will be US source ordinary income or loss.

Dispositions

Subject to the passive foreign investment company discussion below, you generally will realize capital gain or loss upon the sale or other disposition of our ordinary shares or ADSs measured by the difference between the amount realized on the sale or other disposition and your tax basis in the ordinary shares or ADSs, which is generally your cost of the ordinary shares or ADSs reduced by any

previous distributions that are not characterized as dividends. Any recognized gain or loss will be long-term capital gain or loss if the ordinary shares or ADSs have been held for more than one year on the date of the sale or other disposition. In general, any capital gain or loss recognized will be treated as US source income or loss, as the case may be, for US foreign tax credit purposes. Your ability to deduct capital losses may be subject to limitations. Currently, there is a maximum tax rate of 15% on net long-term capital gains of non-corporate taxpayers with respect to transactions after May 5, 2003 through December 31, 2008.

If you receive Rands upon the sale or other disposition of our shares or ADSs, you will realize an amount equal to the US Dollar value of the Rands on the date of the sale or other disposition, or in the case of cash basis and electing accrual basis taxpayers, the settlement date. You will have a tax basis in the Rands received equal to the US Dollar amount of the Rands received. Any foreign currency gain or loss you recognize on a subsequent conversion of Rands into US Dollars generally will be US source ordinary income or loss.

You may incur South African stamp duty or MST, in connection with a subsequent registration or transfer of our ordinary shares. See Item 10. "Additional Information–Taxation–South African Tax Matters–Stamp duty." In such case, stamp duty or MST, as applicable, will not be a creditable tax for US foreign tax credit purposes.

Passive foreign investment company

We do not believe that we are a PFIC for US federal tax purposes and expect to continue our operations in such a manner that we will not become a PFIC. A determination of whether a non-US company is a PFIC must be made on an annual basis, and our status could change depending among other things upon changes in our activities and assets and the activities and assets of corporations in which we own, directly or indirectly, a 25 percent or more interest. If we were to become a PFIC, US holders would generally be subject to US federal income taxes at the highest ordinary income tax rate on any excess distributions received and any gain realized from the sale or other disposition of the ordinary shares or ADSs plus an interest charge on certain taxes treated as having been deferred by US holders under the PFIC rules, regardless of whether we continue to be a PFIC.

US holders should consult their own tax advisors concerning the United States federal income tax consequences of holding ordinary shares or ADSs if we are considered a PFIC in any taxable year, including the advisability and availability of making certain elections that may alleviate the tax consequences referred to above.

Tax consequences for non-US holders

You generally will not be subject to US federal income tax or withholding tax on dividends received from us with respect to our ordinary shares or ADSs unless that income is considered effectively connected with the conduct of a US trade or business, and if an applicable income tax treaty so requires as a condition for you to be subject to US federal income tax on a net income basis in respect of income from our ordinary shares or ADSs, as applicable, such dividends are attributable to a permanent establishment that you maintain in the United States.

You generally will not be subject to US federal income tax on any gain recognized upon the sale or exchange of our ordinary shares or ADSs, unless:

- that gain is effectively connected with the conduct of a US trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to US federal income tax on a net income basis in respect of gain from the sale or other disposition of our ordinary shares or ADSs, as applicable, such gain is attributable to a permanent establishment maintained by you in the United States; or

- you are an individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition, and either your gain is attributable to an office or other fixed place of business that you maintain in the United States or you have a tax home in the United States.

If you are engaged in a US trade or business, the income from our ordinary shares or ADSs, including dividends and the gain from the disposition of our ordinary shares or ADSs, that is effectively connected with the conduct of that trade or business generally will be subject to regular US federal income tax in the same manner as income of a US holder, as discussed above. In addition, if you are a corporation, your earnings and profits that are attributable to that effectively connected income, subject to certain adjustments, may be subject to an additional branch profits tax at a rate of 30%, or any lower rate as may be specified by an applicable tax treaty.

Information reporting and backup withholding

Backup withholding and information reporting requirements may apply to payments within the United States on our ordinary shares or ADS, including certain payments on the proceeds of a sale or redemption of our ordinary shares or ADSs, to US holders. We, our agent, a broker, the trustee or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the US holder fails to furnish the US holder's taxpayer identification number, to certify that such US holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. The backup withholding rate is currently 28%, and will be 31% for amounts paid after December 31, 2010 unless Congress enacts legislation providing otherwise. US holders required to establish their exempt status must generally provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number. Certain US holders, including, among others, corporations, are not subject to the backup withholding and information reporting requirements.

Non-US holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, our ordinary shares or ADSs, provided that such a non-US holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Non-US holders required to establish their exempt status must generally provide such certification on IRS Form W8-BEN, entitled Certificate of Foreign Status.

The amount of any back-up withholding will be allowed as a credit against a holder's US federal income tax liability and may entitle such holder to a refund, provided that certain information is furnished to the IRS.

HOLDERS AND PROSPECTIVE PURCHASERS OF OUR ORDINARY SHARES OR ADSs SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE US FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS TO ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON-US JURISDICTION, AND ESTATE, GIFT, AND INHERITANCE LAWS.

DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as they apply to foreign private issuers, and file reports and other information with the SEC. As a foreign private issuer, we are exempt from Exchange Act rules regarding the content and furnishing of proxy statements to shareholders and rules relating to short swing profit reporting and liability.

Our SEC filings are available to the public over the internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file at the public reference facilities of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549, United States. You may obtain more information concerning the operation of the public reference section of the SEC by calling the SEC at 1-800-SEC-0330. In addition, the reports and other information we file with the SEC are also available for reading and copying at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, United States. We also maintain an internet site at http://www.telkom.co.za. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into or a part of this annual report.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments and Financial Risk Management

Exposure to continuously changing market conditions has highlighted the importance of financial risk management as an element of control. Treasury policies, risk limits and control procedures are continuously monitored by Telkom's board of directors through its audit and risk management committee.

We hold or issue financial instruments to finance our operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, certain financial instruments, for example trade debtors and trade creditors, arise directly from our operations.

We finance our operations primarily with a mixture of issued share capital, retained profit and long-term and short-term loans. We use derivative financial instruments to manage our exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts.

Market Sensitive Instruments – Other than for Trading Purposes

Interest rate risk management

Interest rate risk arises from the repricing of our forward cover and floating rate debt as well as incremental funding or new borrowings and the refinancing of existing borrowings.

Our policy is to manage interest cost through the utilization of a mix of fixed and variable rate debt. In order to manage this mix in a cost efficient manner, we make use of interest rate derivatives as approved pursuant to our group policy. Fixed rate debt represented 92.0%, 91.5% and 86.9% of our total consolidated debt as of March 31, 2006, 2005 and 2004, respectively. A debt profile of mainly fixed rate debt has been maintained to limit our exposure to interest rate increases.

The following table shows our fixed and variable rate debt for the periods indicated.

	At March 31, 2006							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
	(in ZAR millions, except percentages)							
Long term debt								
Telkom								
Fixed rate (ZAR denominated)								
Long term debt, including current portion	2,638	4,581	–	–	1,780	2,500	11,499	10,910
Average interest rate (1)	9.48%	16.05%	–	–	14.98%	15.00%	14.15%	
Finance leases	5	10	16	1	11	824	867	867
Fixed rate (EURO denominated)								
Long term debt	–	–	–	–	–	–	–	–
Average interest rate (1) (percentage)	–	–	–	–	–	–	–	–
Variable rate (ZAR denominated)								
Variable rate	–	–	–	–	–	–	–	–
Average interest rate (percentage) (2)								
Variable rate (EURO denominated)								
Variable rate	3	–	–	–	12	70	85	85
Average interest rate (2) (3)	6.81%	–			0.10%	0.133%	0.34%	
Vodacom (4)								
Fixed (ZAR denominated)								
Finance leases and other short term debt	43	58	96	49	81	80	407	459
Fixed rate (USD denominated)								
Long term debt, including current portion	29	–	–	–	–	–	29	29
Average interest rate (2)								
Variable rate (EURO denominated)								
Long term debt, including current portion	29	–	–	–	–	–	29	29
Average interest rate (3)								
Variable rate (USD denominated)								
Long term debt, including current portion	710	–	–	–	–	46	756	756
Average interest rate (3)								
Variable rate (TSH denominated)								
Long term debt, including current portion	14	–	–	–	–	–	14	14
Average interest rate (3)								

(1) Weighted average yield to maturity.
(2) Weighted average interest rate.
(3) Variable rate equals the current reset rate applicable on reporting date.
(4) Represents Telkom's 50% share of Vodacom's interest bearing indebtedness.

The following table shows our interest rate swaps for the periods indicated.

	At March 31, 2006							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
	(in ZAR millions, except percentages)							
Telkom								
ZAR Pay fixed, receive floating	–	1,000	–	–	–	–	1,000	(106)
Average pay rate (1) (3) . .		14.67%		–	–	–	14.67%	
Average receive rate (1) (3)		7.09%					7.09%	
Vodacom (2)								
ZAR Receive fixed, pay floating	–	–	47	–	–	62	109	19
Average pay rate (1) (3) . .			9.15%	–	–	9.43%	9.31%	
Average receive rate (1) .			14.90%		–	15.27%	15.11%	

(1) Weighted average interest rate.
(2) Represents Telkom's 50% share of Vodacom's indebtedness.
(3) Variable rate calculated as of March 31, 2006.

Foreign currency exchange rate risk

We manage our foreign exchange rate risk by hedging all identifiable exposures via various financial instruments suitable to our risk exposure.

Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on our operations and our liabilities. We also enter into forward foreign exchange contracts to hedge interest expense and purchase and sale commitments denominated in foreign currencies, principally US Dollars and Euros. The purpose of our foreign currency hedging activities is to protect us from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

We make use of foreign debt funding when the opportunity exists to fund at a lower than local cost of funding, or for strategic reasons.

The following table sets forth our liabilities and related derivative instruments subject to foreign exchange risk for the periods indicated.

	At March 31, 2006							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
	(in ZAR millions, except percentages)							
Telkom								
Long term debt								
Fixed rate (EURO denominated) (2)	–	–		–	–	–	–	–
Average interest rate (1)	–	–		–	–	–	–	–
Variable rate (EURO denominated) (2)	3	–		–	12	70	85	85
Average interest rate (1)	6.81%	–		–	0.10%	0.133%	0.34%	–
Accounts payable (EURO denominated) (2)	88	–	–	–	–	–	88	88
Accounts payable (USD denominated) (3) interest free	300	–	–		–	–	300	300
Account payable (GBP denominated) (4) interest free	24	–	–	–	–	–	24	24
Vodacom								
Fixed rate (USD denominated) (3)	29	–	–	–	–	–	29	29
Variable rate (EURO denominated) (2)	29	–	–	–	–	–	29	29
Variable rate (USD denominated) (3)	710	–	–	–	–	46	756	756
Variable rate (TSH denominated) (5)	14	–	–	–	–	–	14	14

(1) Weighted average interest rate.

(2) EURO converted at the spot rate quoted on Reuters of R7.482 EURO on March 31, 2006.

(3) USD converted at the spot rate quoted on Reuters of R6.180 USD on March 31, 2006.

(4) GBP converted at the spot rate quoted on Reuters of R10.737 GBP on March 31, 2006.

(5) TSH converted at the spot rate quoted on Reuters of R0.005 TSH on March 31, 2006.

The following tables set forth our foreign currency forward exchange contracts for the periods indicated.

Forward contracts to buy foreign currencies and sell ZAR

	At March 31, 2006							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
	(ZAR)							
Telkom								
US Dollars								
Notional Amount (millions)	1,134	–	–	–	–	–	1,134	(51)
Average contractual exchange rate	6.51	–	–	–	–	–	6.51	
EURO								
Notional Amount (millions)	631	–	–	–	–	–	631	(29)
Average contractual exchange rate	7.96	–	–	–	–	–	7.96	
Pound Sterling								
Notional Amount (millions)	82	–	–	–	–	–	82	(8)
Average contractual exchange rate	11.97	–	–	–	–	–	11.97	
Swedish Krona								
Notional Amount (millions)	46	–	–	–	–	–	46	(1.0)
Average contractual exchange rate	0.82	–	–	–	–	–	0.82	
Japanese Yen								
Notional Amount (millions)	2	–	–	–	–	–	2	(0.17)
Average contractual exchange rate	0.06	–	–	–	–	–	0.06	
Vodacom								
US Dollar								
Notional Amount (millions)	22	–	–	–	–	–	22	(0.3)
Average contractual exchange rate	6.31	–	–	–	–	–	6.31	
EURO								
Notional Amount (millions)	604	–	–	–	–	–	604	(17)
Average contractual exchange rate	7.81	–	–	–	–	–	7.81	
Pound Sterling								
Notional Amount (millions)	239	–	–	–	–	–	239	(13)
Average contractual exchange rate	11.47	–	–	–	–	–	11.47	
Swiss Franc								
Notional Amount (millions)	0.03	–	–	–	–	–	0.03	–
Average contractual exchange rate	4.89	–	–	–	–	–	4.89	

Forward contracts to sell foreign currencies and buy ZAR

	At March 31, 2006							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair value
				(ZAR)				
Telkom								
US Dollars								
Notional Amount (millions)	679	275	–	–	–	–	954	140
Average contractual exchange rate	6.59	10.94	–	–	–	–	7.44	
EURO								
Notional Amount (millions)	294	–	–	–	–	–	294	(3)
Average contractual exchange rate	7.49	–	–	–	–	–	7.49	
Pound Sterling								
Notional Amount (millions)	54	–	–	–	–	–	54	2.3
Average contractual exchange rate	11.27	–	–	–	–	–	11.27	
Swedish Krona								
Notional Amount (millions)	22	–	–	–	–	–	22	(0.3)
Average contractual exchange rate	0.79	–	–	–	–	–	0.79	
Japanese Yen								
Notional Amount (millions)	1	–	–	–	–	–	1	0.03
Average contractual exchange rate	0.05	–	–	–	–	–	0.05	
Vodacom								
US Dollar								
Notional Amount (millions)	0.4	–	–	–	–	–	0.4	(0.0)
Average contractual exchange rate	6.09	–	–	–	–	–	6.09	
EURO								
Notional Amount (millions)	15	–	–	–	–	–	15	(0.0)
Average contractual exchange rate	7.53	–	–	–	–	–	7.53	
Pound Sterling								
Notional Amount (millions)	2	–	–	–	–	–	2	0.01
Average contractual exchange rate	10.86	–	–	–	–	–	10.86	
Swiss Franc								
Notional Amount (millions)	0.03	–	–	–	–	–	0.03	0.0
Average contractual exchange rate	4.85	–	–	–	–	–	4.85	

Other market risks

Credit risk management

We are not exposed to major concentrations of credit risk. To reduce the risk of counter party failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies. Credit limits are reviewed on an annual basis or when information becomes available in the market. We limit our exposure to any counterparty and these exposures are monitored daily. We expect that all counterparties will meet their obligations.

Trade debtors comprise a large and widespread customer base, covering residential, business and corporate customer profiles.

Credit checks are performed on all customers, other than prepaid customers, on application for new services and on an ongoing basis where appropriate.

Liquidity risk management

We are exposed to liquidity risk as a result of uncertain debtor related cash flows and capital commitments.

Liquidity risk is managed by our corporate finance division in accordance with policies and guidelines formulated by Telkom's executive committee. Pursuant to our borrowing requirements, we ensure that sufficient facilities exist to meet our immediate obligations. Telkom's operating committee maintains a reasonable balance between the period over which assets generate funds and the period over which the respective assets are funded in order to manage long-term liquidity risk.

We had available credit facilities not utilized of R9.5 billion as of March 31, 2006.

Fair value of financial instruments

The fair values of financial instruments are calculated using the market rates on valuation date. The values disclosed above are indicative values and may not be the realizable value.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

We are aware of the importance of maintaining adequate disclosure controls and procedures and internal control over financial reporting and are continuously working towards improving these controls and procedures. Beginning with the year ended March 31, 2007, Section 404 of the U.S. Sarbanes-Oxley Act of 2002 will require Telkom to include an internal control report by management with Telkom's Annual Report on Form 20-F. The internal control report must contain: (1) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for Telkom; (2) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of its internal control over financial reporting; (3) management's assessment of the effectiveness of its internal control over financial reporting as of the end of its most recent fiscal year, including a statement as to whether or not its internal control over financial reporting is effective; and (4) a statement that its independent auditors have issued an attestation report on management's assessment of its internal control over financial reporting. Telkom completed a process of risk identification and control documentation, which was benchmarked to internal control guidelines and frameworks such as the Commission of Sponsoring Organizations of the Treadway Commission and Control Objectives for Information and Related Technology, and performing quarterly self-assessments and a series of continuous management testing. Telkom is currently in the process of remediating the necessary improvements identified during the documentation and management testing phases in preparation for the management certification and auditor attestation requirements of Section 404.

In the course of Telkom's ongoing preparation for its Section 404 certification, Telkom and its consolidated subsidiaries have identified areas of internal control over financial reporting that may need improvement and have designed enhanced processes and controls and plan to design additional enhanced processes and controls, as necessary, to address these and any other issues that might be identified in the future. Vodacom, as a joint venture company, is not subject to the requirements of the Section 404 evaluation. In addition, we have identified errors in our consolidated financial statements and determined that it was necessary to restate our previously issued consolidated financial statements as described in note 2 of the notes to Telkom Group's audited consolidated financial statements and note 23 of the notes to Vodacom's audited consolidated financial statements included in this annual report and Telkom's auditors, Ernst & Young, have notified us that they had identified two significant deficiencies under standards established by the Public Company Accounting Oversight Board at Telkom that were reported to Telkom's audit committee and Vodacom's auditors, Deloitte & Touche, have advised that they had identified two significant deficiencies under standards established by the Public Company Accounting Oversight Board at Vodacom that were reported to Vodacom's audit committee. Vodacom's two significant deficiencies were also reported to Telkom's audit committee by Ernst & Young.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood (i.e., probability of greater than 5%) that a

misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

The first significant deficiency related to lease accounting with respect to Telkom's leases/rentals for PABX systems, routers and related equipment, which Ernst & Young had identified as a significant deficiency in the 2005 financial year. Ernst & Young stated that the manner in which Telkom's records are maintained makes it difficult to match the carrying amounts of assets with its respective lease contracts and the results of Ernst & Young's current year audit procedures indicated that Telkom had not implemented adequate systems to enable it to analyze its rental/lease agreements in order to determine whether the substance of the agreements constitute finance leases. As a result, the lease/rental agreements may be inappropriately accounted for resulting in misstated financial results and position. Telkom has extended the project to include all systems, routers and related equipment. The task team involving representatives from all the relevant and impacted business organizations has validated all contracts and relevant data. This project is expected to be finalized in the 2007 financial year.

The second significant deficiency related to Telkom's outsourced network arrangements with Nedbank and Old Mutual, which are the types of transactions Telkom intends to target in the future. The results of Ernst & Young's audit suggested that there were indicators that Telkom had insufficient processes (i.e. internal controls) in place to ensure that the accounting for these complex outsourced network arrangements is appropriately assessed at the time of entering into the arrangement and that there was a significant risk that a more than remote likelihood of a misstatement in the financial statements could occur and/or not be detected in a timely manner as a result of the lack of sufficient processes in this regard. Due to the unique customer requirements and creative solutions and services created, these transactions could not be billed and managed through the existing billing and reporting systems that are utilized for normal business transactions. Telkom is in the process of designing and implementing processes with appropriate and adequate internal controls to enable it to assess whether its outsourced network arrangements are appropriately accounted for in compliance with IFRS.

The first significant deficiency at Vodacom related to the failure of Vodacom Congo to perform a reconciliation between its general ledger and its financial subsidiary systems for pre-paid revenue. As part of the year end audit, management identified an unreconciled difference that, although immaterial to the Vodacom group, remained a significant deficiency since the reconciliation is a key control for the company. A reconciliation between the general ledger and the financial subsidiary systems has been implemented.

The second significant deficiency at Vodacom related to ineffective controls to ensure that the correct commencement dates were applied in the calculation of the appropriate depreciation expense on fixed assets at Vodacom Congo during the year, resulting in errors in calculations. As part of the year end audit, management sourced, reviewed and corrected the accuracy of 85%, in value, of the fixed asset commencement dates and the related expense recognition. Controls have been identified to ensure that the correct commencement dates are applied in the calculation of the appropriate depreciation expense on fixed assets and Vodacom is in the process of implementing these controls.

The auditors also noted a number of other matters involving internal control over financial reporting and its operation that they consider to be control deficiencies. Telkom is currently considering the control deficiencies and intends to take action as it considers appropriate.

As previously reported, Telkom's auditors had also identified a number of deficiencies in the 2005 financial year. The following controls have been implemented to address the deficiencies identified during the 2005 financial year:

- *Employee liabilities–Provision for sick leave.* Telkom implemented a process to review all complex calculations and assumptions used in the calculation of employee liabilities on a regular basis. The key assumptions used in the calculation of employee liabilities are analyzed during the month leading up to the half-year and year-end reporting dates.
- *Revision of asset useful lives.* Telkom has set up an IAS 16 implementation team that focused on ensuring that the requirements of the amended IAS 16, including the assessment of useful lives on a continued basis, are adequately addressed. The objectives of the existing depreciation rate review group responsible for the review of depreciation rates has been expanded to include the review of the lengthening the useful lives of assets that are considered to be currently depreciating over a period shorter than the intended useful life. The depreciation rate review group meets at least quarterly.
- *Financial statement close process.* Due to the complexity and continuous changes in IFRS and US GAAP, an internal position has been created and a senior manager has been appointed to manage Telkom's risks involved in financial reporting and a formalized approach and procedures have been implemented.
- *Employee liabilities–Team award bonus provision and computation.* A formal document detailing the calculation of the return on assets and EBIT has been approved by the remuneration committee of the board on June 1, 2005 for the 2005 and 2006 financial years.
- *SAP basis–Basis authorizations.* The current access to these transactions has been reviewed in April 2005 and access has been limited to SAP users based on their current business operational requirements. All SAP authorizations are reviewed on a quarterly basis as part of the authorizations.
- *Monitoring of fraud risks.* The responsibility of identifying fraud risks to the business is a dual responsibility of Group Finance with respect to fraud risk identification in the financial reporting area and of the Telkom asset and revenue protection services group, or TARPS, from an operational and non-financial reporting risk perspective.

  A complete capability investigation and review was performed by TARPS to assess Telkom's forensic capability for purposes of fraud management and a fraud risk identification exercise covering financial reporting and the possibility of misstatements due to fraud was also performed. A risk register has also been compiled and was presented at the June 2006 audit and risk management committee meeting.

An evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness, as of March 31, 2006, the end of the period covered by this annual report, of our disclosure controls and procedures within the meaning of Rule 13a-15(e) of the U.S. Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Based on this evaluation, and as a result of the foregoing errors and significant deficiencies that were identified, our chief executive officer and our chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective for recording, processing, summarizing and reporting the material information we are required to disclose in the reports we file or submit under the Exchange Act, within the time periods specified in the rules and forms of the SEC. Except as described above, there were no significant changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

We may identify other conditions that may result in significant deficiencies or material weaknesses in the future, which could impact our ability to comply with Section 404 in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance or our independent auditors are not able to attest as to the effectiveness of our internal control over financial reporting, we may be subject to sanctions or investigation by regulatory

authorities, such as the U.S. Securities and Exchange Commission, or SEC. As a result, we may be required to incur costs in improving our internal control system and the hiring of additional personnel. Any such actions could negatively affect our results and have a significant adverse effect on our business, operations, reputation and net profit.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that the chairman of our audit committee, Mr. Yekani Tenza, is an audit committee financial expert within the meaning of Item 16A. (b) and (c) of the requirements of Form 20-F of the SEC. The SEC has determined that the audit committee financial expert designation does not impose on the person with that designation, any duties, obligations or liability that are greater than the duties, obligations or liabilities imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. Mr. Tenza is a qualified certified public accountant.

Item 16B. Code of Ethics

Telkom has adopted a business code of ethics and a disclosure of information policy that apply to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer or controller. Telkom's business code of ethics, taken together with its disclosure of information policy, are designed to comply with the requirements of Item 16B of Form 20-F. Telkom's business code of ethics seeks to instill in its employees the spirit of fairness, respect and ethical standards in dealing with Telkom's stakeholders. In business dealings on behalf of Telkom, employees are expected to avoid activities that might give rise to conflicts of interest. Employees are expected to act in the exclusive interest of Telkom. Procedures have been put in place to deal with conflicts of interest where these arise in the course of employees' day-to-day activities.

Telkom is committed to promoting the highest standards of behavior and compliance with laws and regulations. Therefore its business code of ethics is reviewed regularly to ensure that it keeps up with developments both inside and outside Telkom.

We have incorporated by reference our business code of ethics and disclosure policy as exhibits to this annual report.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than audit fees, audit related fees and tax fees for each of the 2006 and 2005 financial years:

	Audit Fees	Audit Related Fees (1)	Tax Fees	All Other Fees	Total
			(ZAR millions)		
2005	19	1	–	–	20
2006	29	6	–	–	35

(1) Audit related services mainly include services performed to assist management in assessing the status of its compliance with the Sarbanes-Oxley Act.

Audit Committee Pre-Approval Policy

In accordance with our audit committee pre-approval policy, all audit and non-audit services performed for us by our independent accountants were pre-approved by the audit committee of our board of directors, which concluded that the provision of such services by the independent accountants was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

The pre-approval policy provides for categorical pre-approval of permissible non-audit services and requires the specific pre-approval by the audit committee, prior to engagement, of such services, other than audit services covered by the annual engagement letter, that are individually estimated to result in an amount of fees less than 10% of the independent accountant's total audit engagement fee for individual services; provided that all such fees must be less than 50% of the total audit fees for Telkom's annual audit engagement. In addition, services to be provided by the independent accountants that are not within the category of pre-approved services must be approved by the audit committee prior to engagement, regardless of the service being requested and the amount, but subject to the restrictions above.

Requests or applications for services that require specific separate approval by the audit committee are required to be submitted to the audit committee by both management and the independent accountants, and must include a detailed description of the services to be provided and a joint statement confirming that the provision of the proposed services does not impair the independence of the independent accountants.

The audit committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the audit committee at its next scheduled meeting. The audit committee does not delegate to management its responsibilities to pre-approve services to be performed by the independent accountants.

Item 16D. Exemptions From the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Ordinary Shares

In 2004 Telkom embarked on a share repurchase program to acquire shares to be used for the Telkom conditional share plan, and to facilitate share repurchase activities for purposes other than for the Telkom conditional share plan. The following table sets forth information with respect to Telkom's share repurchases in the 2004, 2005 and 2006 financial years.

	(a) Total number of shares purchased	(b) Average price paid per share ZAR	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum number of shares that may yet be purchased under the plans or programs (1)
For the year ended March 31, 2004				
March 24 to March 31, 2004	3,185,736	74.58	3,185,736	108,220,627
For the year ended March 31, 2005				
June 7 to June 21, 2004	2,337,000	76.88	2,337,000	105,883,627
August 3 to August 31, 2004	7,457,094	78.69	7,457,094	98,426,533
September 1 to September 30, 2004	10,586,418	76.28	10,586,418	87,840,115
For the year ended March 31, 2006				
June 29 to June 30, 2005	152,172	108.82	152,172	87,687,943
July 1 to July 29, 2005	2,659,193	120.10	2,659,193	85,028,750
August 1 to August 31, 2005	3,161,098	126.65	3,161,098	81,867,652
September 1 to September 30, 2005	6,114,457	125.32	6,114,457	75,753,195

(1) On January 27, 2004, the shareholders of Telkom authorized, by way of general approval, Telkom, or a subsidiary of Telkom, to acquire up to 20% of Telkom's issued share capital, upon such terms and conditions, and in such amounts as the directors of Telkom and/or its subsidiaries may from time to time decide. The repurchases are subject to the provisions of the Companies Act, 61 of 1973, as amended, and the Listing Requirements of the JSE. In terms of the South African Companies Act, 61 of 1973, as amended, a subsidiary company may not acquire more than 10% of the shares in its holding company and if the holding company acquires its own shares directly, such shares must be cancelled. This approval was valid until the next Annual General Meeting, which was held on October 14, 2004. At this meeting, the shareholders of Telkom provided general approval for the share repurchase program until the next Annual General Meeting, or for 15 months from the date of the resolution, whichever period is shorter. At the following Annual General Meeting, which was held on October 21, 2005, the shareholders of Telkom again provided general approval for the share repurchase program until the next Annual General Meeting, or for 15 months from the date of the resolution, whichever period is shorter. Telkom plans on continuing its share buy back strategy based on certain criteria.

PART III

Item 17. Financial Statements

The registrant has responded to Item 18 in lieu of responding to this Item.

Item 18. Financial Statements

See Index to Financial Statements for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

Documents filed as exhibits to this annual report:

Exhibits	Description
1.1	Memorandum and Articles of Association of Telkom S.A. Limited ("Telkom") (Incorporated by reference to Exhibit 3.1 to Telkom's Registration Statement on Form F-1 (File No. 333 102834) (the "F-1")) [(1)]
2.1	Form of Ordinary Share Certificate (Incorporated by reference to Exhibit 4.1 to the Form F-1) [(1)]
2.2	Deposit Agreement, dated as of March 3, 2003, among Telkom, the Bank of New York, as Depositary, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (Incorporated by reference to Exhibit 4.2 to the F-1) [(1)]
4.1	Agreement, dated July 31, 2000, between Telkom and Total Facilities Management Company (Pty) Limited (Incorporated by reference to Exhibit 10.3 to the F-1) [(1)]
4.2	Exclusive Facilities Management Services Agreement, dated March 31, 2001, between Telkom and systems Applications Project (Africa) (Pty) Limited (Incorporated by reference to Exhibit 10.4 to the F-1) [(1)]
4.3	Multiparty Implementation Agreement, dated September 30, 1993, among Telkom, Vodacom Group (Pty) Limited, Mobile Telephone Network (Pty) Limited, the Postmaster General and the Government of the Republic of South Africa (Incorporated by reference to Exhibit 10.5 to the F-1) [(1)]
4.4	Interconnection Agreement, dated February 16, 1994, among Telkom and Vodacom Group (Pty) Limited, as amended by agreements among Telkom, Vodacom Group (Pty) Limited and MTN on August 22, 1996, January 12, 1998, July 21, 1998 and September 4, 2001 (Incorporated by reference to Exhibit 10.6 to the F-1) [(1)]
4.5	Interconnection Agreement, dated February 16, 1994, among Telkom and MTN, as amended by agreements among Telkom, Vodacom Group (Pty) Limited and MTN on August 22, 1996, January 12, 1998, July 21, 1998, and September 14, 2001 (Incorporated by reference to Exhibit 10.7 to the F-1) [(1)]
4.6	Interconnection Agreement, dated August 31, 2001, between Telkom SA Limited and Cell C, as amended by agreement among Telkom, Vodacom Group (Pty) Limited and Cell C, dated September 18, 2001 (Incorporated by reference to Exhibit 10.8 to the F-1)[(1)]
4.7	Joint Venture Agreement, dated March 31, 1995, between Telkom, Vodafone Group plc, Rembrant Group Limited, Vodacom Group, Vodacom, Vodac and Vodafone Holdings (SA) (Pty) Limited (Incorporated by reference to Exhibit 10.9 to the F-1) [(1)]
4.8	Registration Rights Agreement, dated January 16, 2003, among the Minister of Communications of the Government of the Republic of South Africa, Thintana Communications LLC and Telkom SA Limited (Incorporated by reference to Exhibit 10.11 to the F-1) [(1)]

4.9	Telkom Conditional Share Plan (Incorporated by reference to Exhibit 4.11 to Telkom's Annual Report on Form 20-F for the year ended March 31, 2004) [(1)]
4.10	Service Agreement between Telkom SA Limited and Sizwe Nxasana (Incorporated by reference to Exhibit 4.12 of the 20-F for the year ended March 31, 2004) [(1)]
4.11	Service Agreement between Telkom SA Limited and Papi Molotsane [(2)]
8.1	Subsidiaries of Telkom (Incorporated by reference to Exhibit 21.1 to the F-1) [(1)]
11.1	Telkom SA Limited Business Code of Ethics (Incorporated by reference to Exhibit 11.1 to the 20-F) [(1)]
11.2	Telkom SA Limited Disclosure of Information Policy (Incorporated by reference to Exhibit 11.2 to the 20-F) [(1)]
12.1	Certification of chief executive officer pursuant to 17 CFR 240.13a 14(a), promulgated under Section 302 of the Sarbanes Oxley Act of 2002 [(2)]
12.2	Certification of chief financial officer pursuant to 17 CFR 240.13a 14(a), promulgated under Section 302 of the Sarbanes Oxley Act of 2002 [(2)]
13.1	Certification of chief executive officer and chief financial officer furnished pursuant to Rule 13a 14(b) (17 CFR 240.13a 14(b)) or Rule 15d 14(b) (17 CFR 240.15d 14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), promulgated under Section 906 of the Sarbanes Oxley Act of 2002 [(2)]

(1) Incorporated by reference.

(2) Filed herewith.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TELKOM SA LIMITED

By: /s/ Leapeetswe Rapula Radiala Molotsane
Name: Leapeetswe Rapula Radiala Molotsane
Title: Chief Executive Officer

Dated: August 4, 2006

Telkom SA Limited

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for the three years ended March 31, 2006

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ERNST & YOUNG

Chartered Accountants (SA)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TELKOM SA LIMITED

We have audited the accompanying consolidated balance sheets of Telkom SA Limited (‘Telkom’) and its subsidiaries (together ‘the Group’) as of March 31, 2006, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years then ended set out on pages F-3 to F-98.

These financial statements are the responsibility of the Group’s directors. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Vodacom Group (Proprietary) Limited, a 50% joint venture proportionally consolidated, which statements reflect total assets constituting 22%, 20% and 19% at March 31, 2006, 2005 and 2004, respectively, and total revenues constituting 36%, 32% and 28% for the years ended March 31, 2006, 2005 and 2004, respectively of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for Vodacom Group (Proprietary) Limited, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, and the report of other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telkom SA Limited and its subsidiaries at March 31, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with International Financial Reporting Standards, which differ in certain significant respects from U.S. generally accepted accounting principles (see Note 44 to the consolidated financial statements).

As described in Note 2 to the consolidated annual financial statements, in 2006 the Group adopted new accounting standards, IAS 16 (revised) *Property, plant & equipment*, IAS 17 (revised) *Leases*, IAS 19 (revised) *Employee benefits*, IAS 24 (revised) *Related party disclosures*, IAS 40 (revised) *Investment property*, IFRS 4 *Insurance contracts* and IFRIC 1 *Changes in existing decommissioning, restoration and similar liabilities.* The Group also changed its revenue recognition policy with regards to connection revenues to analogise to guidance issued under U.S. generally accepted accounting principles.

The consolidated annual financial statements further discloses in note 2 certain restatements affecting the Group’s balance sheets at March 31, 2005 and March 31, 2004 and the related statements of income for the years then ended. These restatements relate to changes in the application of accounting standards with regards to straight-lining of operating leases, classification of investment properties, classification of certain derivative financial instruments and classification of non integral software.

ERNST & YOUNG
Registered Accountants and Auditors

Pretoria
South Africa
June 2, 2006

Consolidated income statement

for the three years ended March 31, 2006

	Notes	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**
Total revenue	3.1	41,115	43,696	**48,260**
Operating revenue	3.2	40,582	43,160	**47,625**
Other income	4	255	280	**480**
Operating expenses		31,499	32,179	**33,428**
Employee expenses	5.1	7,408	8,111	**7,489**
Payments to other operators	5.2	5,985	6,132	**6,826**
Selling, general and administrative expenses	5.3	7,665	8,824	**10,273**
Services rendered	5.4	2,269	2,021	**2,114**
Operating leases	5.5	924	803	**850**
Depreciation, amortisation, impairment and write-offs	5.6	7,248	6,288	**5,876**
Operating profit		9,338	11,261	**14,677**
Investment income	6	322	350	**397**
Finance charges	7	3,264	1,695	**1,233**
Interest		2,488	1,686	**1,346**
Foreign exchange and fair value effect		776	9	**(113)**
Profit before tax		6,396	9,916	**13,841**
Taxation	8	1,738	3,082	**4,520**
Profit for the year		4,658	6,834	**9,321**
Attributable to:				
Equity holders of Telkom		4,589	6,751	**9,182**
Minority interest		69	83	**139**
		4,658	6,834	**9,321**
Basic earnings per share (cents)	9	823.9	1,246.7	**1,744.7**
Diluted earnings per share (cents)	9	823.9	1,244.3	**1,735.2**
Dividend per share (cents)	9	90.0	110.0	**900.0**

Consolidated balance sheet

at March 31

	Notes	Restated 2004 Rm	Restated 2005 Rm	2006 Rm
Assets				
Non-current assets		41,751	42,552	**44,813**
Property, plant and equipment	10	37,756	36,448	**37,274**
Intangible assets	11	1,864	3,182	**3,910**
Investments	12	1,567	2,277	**2,894**
Deferred expenses	13	213	133	**254**
Deferred taxation	14	351	512	**481**
Current assets		11,423	15,045	**12,731**
Other financial assets	15	1,241	5,074	**275**
Short-term investments	12	168	69	**69**
Current portion of deferred expenses	13	430	214	**226**
Inventories	16	520	658	**814**
Trade and other receivables	17	5,846	5,820	**6,399**
Cash and cash equivalents	18	3,218	3,210	**4,948**
Total assets		53,174	57,597	**57,544**
Equity and liabilities				
Equity attributable to equity holders of Telkom		21,628	26,141	**29,165**
Share capital and premium	19	8,293	8,293	**6,791**
Treasury shares	19	(238)	(1,812)	**(1,809)**
Share-based compensation reserve	20	–	68	**151**
Non-distributable reserves	21	91	361	**1,136**
Retained earnings	22	13,482	19,231	**22,896**
Minority interest	23	200	220	**301**
Total equity		21,828	26,361	**29,466**
Non-current liabilities		16,707	13,870	**12,391**
Interest-bearing debt	24	12,703	9,504	**7,655**
Deferred taxation	14	469	947	**1,068**
Deferred revenue	13	1,097	959	**991**
Provisions	26	2,438	2,460	**2,677**
Current liabilities		14,639	17,366	**15,687**
Credit facilities utilised	18	422	909	**693**
Trade and other payables	27	6,007	6,782	**6,103**
Shareholders for dividend		7	7	**4**
Current portion of interest-bearing debt	24	4,051	4,499	**3,468**
Current portion of deferred revenue	13	1,718	1,717	**1,975**
Current portion of provisions	26	1,329	1,428	**1,660**
Income tax payable		460	1,711	**1,549**
Other financial liabilities	15	645	313	**235**
Total liabilities		31,346	31,236	**28,078**
Total equity and liabilities		53,174	57,597	**57,544**

Consolidated statement of changes in equity

for the three years ended March 31, 2006

	Attributable to ordinary shareholders								
	Share capital Rm	Share premium Rm	Treasury shares Rm	Share-based compen-sation reserve Rm	Non-distri-butable reserve Rm	Retained earnings Rm	Total Rm	Minority interest Rm	Total equity Rm
Balance at April 1, 2003 as previously reported	5,570	2,723	–	–	(15)	10,392	18,670	194	18,864
Change in accounting policy (Refer to note 2)						(809)	(809)	–	(809)
Restated balance at April 1, 2003	5,570	2,723	–	–	(15)	9,583	17,861	194	18,055
Total recognised income and expense for the year					9	4,589	4,598	69	4,667
Total income and expense recognised directly in equity for the year – Fair value adjustment on investment (Refer to note 21)					9		9		9
Profit for the year (Net of restatement R70 million) (Refer to note 2)						4,589	4,589	69	4,658
Dividend declared of 90 cents per share						(501)	(501)	(54)	(555)
Transfer to non-distributable reserves (Refer to note 21)					189	(189)	–		–
Foreign currency translation reserve (Refer to note 21) (net of tax R5 million)					(92)		(92)	(9)	(101)
Purchase of treasury shares			(238)				(238)		(238)
Restated balance at March 31, 2004	5,570	2,723	(238)	–	91	13,482	21,628	200	21,828
Total recognised income and expense for the year					(22)	6,751	6,729	83	6,812
Total income and expense recognised directly in equity for the year					(22)		(22)		(22)
Fair value adjustment on investment (Refer to note 21)					9		9		9
Realisation of fair value adjustment on investment (Refer to note 21)					(31)		(31)		(31)
Profit for the year						6,751	6,751	83	6,834
Dividend declared of 110 cents per share						(606)	(606)	(67)	(673)
Transfer to non-distributable reserves (Refer to note 21)					279	(279)	–		–
Foreign currency translation reserve (Refer to note 21) (net of tax RNil)					13		13	(1)	12
Purchase of treasury shares			(1,574)				(1,574)		(1,574)
Business combination (Refer to note 33)						(117)	(117)		(117)
Net increase in share-based compensation reserve (Refer to note 20)				68			68		68
Acquisition of subsidiary (Refer to note 33)							–	5	5
Restated balance at March 31, 2005	**5,570**	**2,723**	**(1,812)**	**68**	**361**	**19,231**	**26,141**	**220**	**26,361**
Total recognised income and expense – Profit for the year						**9,182**	**9,182**	**139**	**9,321**
Dividend declared of 900 cents per share						**(4,801)**	**(4,801)**	**(78)**	**(4,879)**
Transfer to non-distributable reserves (Refer to note 21)					**716**	**(716)**	**–**		**–**
Foreign currency translation reserve (Refer to note 21) (net of tax RNil)					**59**		**59**	**(7)**	**52**
Net increase in share-based compensation reserve (Refer to note 20)				**86**			**86**		**86**
Acquisition of subsidiary (Refer to note 33)							**–**	**27**	**27**
Shares bought back and cancelled (Refer to note 19)	**(121)**	**(1,381)**					**(1,502)**		**(1,502)**
Shares vested and re-issued (Refer to note 20)			**3**	**(3)**			**–**		**–**
Balance at March 31, 2006	**5,449**	**1,342**	**(1,809)**	**151**	**1,136**	**22,896**	**29,165**	**301**	**29,466**

Consolidated cash flow statement

for the three years ended March 31, 2006

	Notes	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**
Cash flows from operating activities		13,884	15,711	**9,506**
Cash receipts from customers		40,520	43,561	**46,958**
Cash paid to suppliers and employees		(24,218)	(24,939)	**(27,234)**
Cash generated from operations	29	16,302	18,622	**19,724**
Interest received		469	463	**482**
Dividends received	6	10	14	**50**
Finance charges paid	30	(1,787)	(1,272)	**(1,316)**
Taxation paid	31	(562)	(1,487)	**(4,550)**
Cash generated from operations before dividend paid		14,432	16,340	**14,390**
Dividend paid	32	(548)	(629)	**(4,884)**
Cash flows from investing activities		(5,423)	(6,306)	**(7,286)**
Proceeds on disposal of property, plant and equipment and intangible assets		52	37	**92**
Proceeds on disposal of investments		29	267	**493**
Additions to property, plant and equipment and intangible assets		(5,248)	(5,880)	**(7,396)**
Additions to other investments		(331)	(592)	**(475)**
Acquisition of subsidiaries	33	75	(138)	**–**
Cash flows from financing activities		(6,481)	(9,897)	**(258)**
Purchase of treasury shares		(102)	(1,710)	**–**
Shares bought back and cancelled		–	–	**(1,502)**
Loans raised		1,732	1,157	**4,123**
Loans repaid		(7,428)	(5,027)	**(7,399)**
Finance lease capital repaid		(5)	(13)	**(24)**
(Increase)/decrease in net financial assets		(678)	(4,304)	**4,544**
Net increase/(decrease) in cash and cash equivalents		1,980	(492)	**1,962**
Net cash and cash equivalents at beginning of the year		837	2,796	**2,301**
Effect of foreign exchange rate differences		(21)	(3)	**(8)**
Net cash and cash equivalents at end of the year	18	2,796	2,301	**4,255**

Change in comparatives

The Group reclassified R463 million of Finance costs accrued from Cash paid to suppliers and employees to Finance charges paid for the year ended March 31, 2005 (2004: R532 million).

1. Overview of business activities

Telkom SA Limited ('Telkom') is a limited liability company incorporated in the Republic of South Africa ('South Africa'). The Company, its subsidiaries and joint ventures ('the Group') is the leading provider of fixed-line voice and data communications services in South Africa and mobile communications services through Vodacom Group (Proprietary) Limited ('Vodacom') in South Africa and certain other African countries. The Group's services and products include:

- fixed-line voice services, including subscriptions and connections services, local, long distance, fixed-to-mobile and international voice services, interconnection and hubbing communications services, international voice over internet protocol services, subscription based value-added voice services and customer premises equipment sales and rental;
- fixed-line data services, including domestic and international data transmission services, such as point to point leased lines, ADSL services and packet-based services, managed data networking services and internet access and related information technology services;
- mobile telephony through Vodacom; and
- e-commerce, including internet access service provider, application service provider, hosting, data storage, e-mail and security services.

2. Significant accounting policies

Basis of preparation

The financial statements comply with International Financial Reporting Standards ('IFRS') of the International Accounting Standards Board ('IASB') and the Companies Act of South Africa, 1973.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments and share-based payments which are measured at fair value. Details of the Group's significant accounting policies are set out below, and are consistent with those applied in the previous financial year except for the following:

- the Group has adopted IAS16 (revised), IAS17 (revised), IAS24 (revised), IAS40 (revised), IFRS4 and IFRIC1, which are applicable for financial years beginning on or after January 1, 2005;
- the Group has early adopted the amendment to IAS19, which is applicable for financial years beginning on or after January 1, 2006;
- the Group has made certain voluntary changes in accounting policies related to fixed-line connection revenues; and
- the Group made certain retrospective changes to its application of certain accounting standards.

The principal effects of these changes are discussed below.

Adoption of new and revised standards and interpretations

The following new and revised standards and interpretations have been adopted for the year under review:

IAS16 Property, Plant and Equipment (revised)

The revised standard clarifies that an entity should consider an item of property, plant and equipment as a combination of various components with separate useful lives or consumption patterns. These separate components are used to calculate depreciation, test for derecognition and for the treatment of expenditure to replace or renew a component of that item of property, plant and equipment. All initial and subsequent costs incurred are now assessed in terms of one general recognition principle at the time they are incurred. It further confirms that the cost of an item of property, plant and equipment should include not only the initial estimate of the costs relating to dismantlement, removal or restoration of the property at the time of installing the item, but also during the period of use for purposes other than producing inventory. The residual value, useful life and depreciation method of an asset must now be reviewed annually. Residual values should not include expected future inflation. There is no cessation of depreciation when assets are idle. As a result of the adoption of the revised standard in the current year the useful lives of all assets are assessed on an annual basis. The effect of the annual assessment in the current year is that useful lives of certain categories of assets were extended which resulted in a decrease in the current year depreciation charge.

IAS17 Leases (revised)

Based on the revised standard a lease of land and buildings is required to be split into two elements – a lease of the land and a separate lease of the buildings – which are considered separately for the purposes of lease classification. All initial direct costs incurred by a lessor in negotiating a finance lease need to be included in the initial measurement of the finance lease receivables. Initial direct costs incurred by lessors in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income. The revised standard also distinguishes between the inception of a lease (when the lease is classified) and the commencement of the lease (when recognition takes place). The standard provides special transitional provisions, whereby the Group is required to apply the amendments resulting from the changes to the standard retrospectively for all leases as it has previously applied IAS17 (revised 1997). No significant changes occurred in the classification and measurement of leases as a result of the adoption of the revised standard in the current year.

IAS24 Related Party Disclosures (revised)

Parent companies, investors, venturers and state-controlled entities are no longer exempt from providing related party disclosure in separate financial statements. The revised standard now explicitly requires the disclosure of compensation of key management personnel (which now includes non-executive directors).

2. Significant accounting policies (continued)

Adoption of new and revised standards and interpretations (continued)

IAS24 Related Party Disclosures (revised) (continued)

The scope of the revised standard is extended to include, amongst others, close family members of key management personnel of the Group. Disclosure of related party relationships and transactions including the terms and conditions, securing of outstanding balances, the nature of the consideration payable on settlement, details of any guarantees and impairments are also required. These additional requirements are disclosed in note 40.

IAS40 Investment Property (revised)

A property interest that is held by a lessee under an operating lease that meets the definition of investment property may be treated as investment property if the operating lease is accounted for as if it were a finance lease in accordance with IAS17, and the lessee uses the fair value model in terms of IAS40. This standard has not had any impact on the Group's financial statements.

IFRS4 Insurance Contracts

The standard applies to all insurance contracts that an entity issues, or to all reinsurance contracts that it holds. IFRS4 is the first guidance by the IASB on recognition, measurement and disclosure of insurance contracts. The impact on the Group's financial statements is immaterial.

IFRIC1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

Under IFRIC1 the effect of any changes to an existing obligation must be added to or deducted from the cost of the related asset and depreciated prospectively over the asset's useful life. The impact of the interpretation is not material, as there have been no material changes to existing obligations.

Early adoption of International Financial Reporting Standard

The following revised standard has been early adopted for the year under review:

IAS19 Employee Benefits (revised)

With effect from April 1, 2005 the Group has early adopted the amendment to IAS19. This amendment introduces an additional recognition option for actuarial gains and losses arising in post-employment defined benefit plans. If an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them outside profit or loss. The actuarial gains and losses shall be presented in a statement of changes in equity titled 'statement of recognised income and expense' that comprises only the items specified in paragraph 96 of IAS1. The Group has elected not to use the new recognition option and therefore continues to recognise actuarial gains and losses only when it is in excess of the corridor. The amendment also requires additional disclosures that provide information about trends in the assets and liabilities in a defined benefit plan and the assumptions underlying the components of the defined benefit cost. The standard has resulted in expanded disclosures relating to employee benefits (Refer to note 28).

Changes in accounting policies

Connection revenues

To ensure comparability with other telecommunications entities reporting under IFRS and to better reflect Telkom's customer retention focus, Telkom has retrospectively changed its accounting policy in terms of IAS8.14(b) with regards to the recognition of fixed-line installation and activation revenues. Previously such revenue was recognised when the installation and activation of customers had occurred because it was viewed as the culmination of a separate earnings process. The revised accounting policy is to recognise such revenues (and the related costs) systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. This treatment provides more reliable and relevant information about this transaction with the entity's customers. The impact of the change in accounting policy is reflected in the table at the end of this note.

Accounting pronouncements not yet adopted

The Group has not applied the following standards and interpretations that have been issued and are not yet effective:

IAS1 Presentation of Financial Statements (revised)

This amendment is effective for annual periods beginning on or after January 1, 2007 and requires an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. The disclosures include qualitative information as well as summary quantitative data about what the entity regards as capital. The impact of this standard will entail more extensive disclosure of the Group's capital management.

IAS21 The Effects of Changes in Foreign Exchange Rates (revised)

The amendment on Net Investment in a Foreign Operation requires that even if a monetary item (which is part of a net investment) is denominated in a currency which is neither that of a reporting entity or a foreign operation, the resulting exchange difference should be recognised in equity.

This treatment is similar to the treatment where a monetary item is denominated in the currency of the reporting entity or that of a foreign operation. This amendment is effective for annual periods beginning on or after January 1, 2006. The possible impact of this standard is currently being evaluated.

IAS39 Financial Instruments: Recognition and Measurement (revised)

The first amendment is intended to ensure that issuers of financial guarantee contracts include the resulting liabilities in their balance sheet. The amendment defines a financial guarantee contract as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amendment must be applied for annual periods beginning on or after January 1, 2006 and is not expected to have a material effect.

2. **Significant accounting policies** (continued)

Accounting pronouncements not yet adopted (continued)

IAS39 Financial Instruments: Recognition and Measurement (revised) (continued)

The second amendment regarding cash flow hedge accounting of forecast intragroup transactions is effective for annual periods beginning on or after January 1, 2006. This amendment is not expected to have any impact on the Group's financial statements since the Group's derivative transactions do not qualify for hedge accounting under the specific rules of IAS39.

The fair value option amendment to IAS39 introduces additional requirements to be met before the fair value option may be used. The amendment is effective for annual periods beginning on or after January 1, 2006. The amendment is not expected to have any impact on the Group's financial statements since the Group has not designated any financial assets or liabilities into the category 'at fair value through profit or loss'.

IFRS7 Financial Instruments: Disclosures

An entity shall apply this standard for annual periods beginning on or after January 1, 2007. The standard requires the Group to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments for the Group's financial position and performance, and the nature and extent of risks arising from financial instruments to which the Group is exposed, and how the Group manages those risks. The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS32 and IAS39. The impact of this standard will be to expand on certain disclosures relating to financial instruments.

IFRIC4 Determining Whether an Arrangement Contains a Lease

The interpretation is effective for annual periods beginning on or after January 1, 2006. Under IFRIC4, where an entity enters into an arrangement that depends on the use of a specific asset and conveys the right to control this specific asset, the arrangement should be treated as a lease under IAS17. The arrangements that are in substance leases should be assessed against criteria included in IAS17 to determine if the arrangements should be accounted for as a finance lease or an operating lease. The interpretation provides transitional provisions whereby the Group is not required to comply with the requirements of IAS8 regarding a change in accounting policy when first applying this interpretation. These transitional provisions permit the Group to assess existing arrangements at the beginning of the earliest period for which comparative information under IFRS is presented on the basis of facts and circumstances existing at the start of that period. The possible impact of this interpretation is currently being evaluated.

IFRIC7 Applying the Restatement Approach under IAS29 Financial Reporting in Hyperinflationary Economies

The interpretation is effective for annual periods beginning on or after March 1, 2006. Under IFRIC7 guidance is given on how to interpret the requirement '…stated in terms of the measuring unit current at the balance sheet date', as well as how to account for the opening deferred tax items in restated financial statements. The interpretation is not expected to have any impact since the Group does not operate in a hyperinflationary economy and does not have significant investments in hyperinflationary economies.

IFRIC8 Scope of IFRS2

The interpretation is effective for annual periods beginning on or after May 1, 2006. Under IFRIC8 guidance is given as to the application of IFRS2 to transactions in which the Group cannot identify specifically some or all of the goods or services received. The possible impact of this interpretation is not expected to be material since the Group has not transacted with third parties using its equity as a purchase consideration for the transaction, other than those paid to employees in share-based payment transactions (Refer to note 28).

IFRIC9 Reassessment of Embedded Derivatives

The interpretation is effective for annual periods beginning on or after June 1, 2006. This interpretation shall be applied retrospectively. Under IFRIC9 guidance is given as to when to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract and should not be reassessed unless the contract terms change to significantly modify the cash flows that would otherwise be required. The possible impact of this interpretation is currently being evaluated.

Significant accounting judgements and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results ultimately may differ from those estimates.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, are discussed as follows:

2. Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

Property, plant and equipment and intangible assets

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, ustomer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual items of property, plant and equipment. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 5.6. The estimation of residual values of assets is also based on management's judgement that the assets will be sold and what their condition will be like at that time.

For assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Determination of impairments of property, plant and equipment, and intangible assets

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identification of separate cash generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs to sell. Management judgement is also required when assessing whether previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash generating unit requires management to make assumptions to determine the fair value less costs to sell and value in use. Key assumptions on which management has based its determination of fair value less costs to sell include the existence of binding sale agreements, and for the determination of value in use include projected revenues, gross margins, average revenue per unit, earnings multiple, capital expenditure, expected customer bases and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of any impairment.

Financial assets

At each balance sheet date management assesses whether there are indicators of impairment of financial assets, including equity investments. If such evidence exists, the estimated present value of the future cash flows of that asset is determined.

Management judgement is required when determining the expected future cash flows. To determine whether impairment is prolonged, relies heavily on an assessment by management regarding the future prospects of the investee. In measuring impairments, quoted market prices are used, if available, or projected business plan information from the investee for those financial assets not carried at fair value.

Impairment of receivables

An impairment is raised for estimated losses on trade receivables that are deemed to contain a collection risk. The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment of their ability to make payments based on credit worthiness and historical write-offs experience. Should the financial condition of the customers change, actual write-offs could differ significantly from the impairment.

Taxation

Management judgement is exercised when determining the probability of future taxable profits which will determine whether deferred tax assets should be recognised or derecognised. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised taxation credits, management needs to determine the extent that future payments are likely to be available for set-off. In the event that the assessment of future payments and future utilisation changes, the change in the recognised deferred taxation must be recognised in profit or loss.

The tax rules and regulations in South Africa as well as the other African countries within which the group operates are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects South African tax laws to further develop through changes in South Africa's existing tax structure as well as clarification of the existing tax laws through published interpretations and the resolution of actual tax cases.

The growth of the Group, following its geographical expansion into other African countries over the past few years, has made the estimation and judgement more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependant on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the income statement and taxation payments. Group entities are subject to evaluation, by the relevant tax authorities, of its direct and indirect tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules. These disputes may not necessarily be resolved in a manner that is favourable for the Group. Additionally the resolution of the disputes could result in an obligation for the Group that exceeds management's estimate.

2. Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation, which relies heavily on assumptions as disclosed in note 28. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the expected return on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-retirement benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on zero coupon South African government bonds with a duration and maturity of 20 years as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

Telkom provides equity compensation in the form of the Telkom Conditional Share Plan to its employees. The related expense and reserve are determined through an actuarial valuation, which relies heavily on assumptions as disclosed in note 28. The assumptions include employee turnover percentages and whether specified performance criteria will be met. Changes to these assumptions could affect the fair value of the shares and compensation expense as calculated by the actuary.

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes 26 and 36. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement. The Group is required to record provisions for legal contingencies when the occurrence of the contingency is probable and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

Revenue recognition

To reflect the substance of each transaction, revenue recognition criteria are applied to each separately identifiable component of a transaction. In order to account for multiple-element revenue arrangements in developing its accounting policies, the Group considered the guidance contained in the United States Financial Accounting Standards Board ('FASB') Emerging Issues Task Force No 00-21 Revenue Arrangements with Multiple Deliverables. Judgement is required to separate those revenue arrangements that contain the delivery of bundled products or services into individual units of accounting, each with its own earnings process, when the delivered item has stand-alone value and the undelivered item has fair value. Further judgement is required to determine the relative fair values of each separate unit of accounting to be allocated to the total arrangement consideration. Changes in the relative fair values could affect the allocation of arrangement consideration between the various revenue streams.

Judgement is also required to determine the expected customer relationship period.

Any changes in these assessments may have a significant impact on revenue and deferred revenue.

Asset retirement obligations

Management judgement is exercised when determining the present value of expected future cash flows when the obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements include those of Telkom, its subsidiaries and joint ventures. Subsidiaries are those entities over whose financial and operating policies the Group has the ability to exercise control, so as to obtain benefits from their activities. Joint ventures are those enterprises over which the Group exercises joint control in terms of a contractual agreement. Joint ventures are accounted for using the proportionate consolidation method on a line-by-line basis. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Transactions with jointly controlled entities together with related unrealised gains and losses and resulting balances are eliminated to the extent of the Group's interest in the entities. Business combinations are accounted for using the purchase method of accounting. On acquisition of a subsidiary or joint venture, any excess of the purchase price over the fair value of the Group's interest in the net assets is recognised as goodwill. Minority interests are calculated on the fair value of assets and liabilities. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

2. Significant accounting policies (continued)

Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. Idle assets continue to attract depreciation. The estimated useful life of individual assets and the depreciation method thereof are reviewed on an annual basis. The depreciable amount is determined after taking into account the residual value of the asset. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual values of assets are reviewed on an annual basis.

Assets under construction represents freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Freehold land is stated at cost and is not depreciated. Amounts paid by the Group on improvements to assets which are held in terms of operating lease agreements are depreciated on a straight-line basis over the shorter of the remaining useful life of the applicable asset or the remainder of the lease period. Where it is reasonably certain that the lease agreement will be renewed, the lease period equals the period of the initial agreement plus the renewal periods.

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years
Freehold buildings	15 to 50
Leasehold buildings	10 to 25
Network equipment	
Cables	15 to 40
Switching equipment	5 to 15
Transmission equipment	5 to 15
Other	2 to 25
Support equipment	8 to 10
Furniture and office equipment	5 to 10
Data processing equipment and software	5 to 7
Other	2 to 10

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale in accordance with IFRS5 Non-current Assets Held for Sale and Discontinued Operations or the date the asset is derecognised.

Impairment of non-current assets

The Group regularly reviews its assets, other than financial instruments, and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments occur and could result in changes of the asset's or cash-generating units estimated recoverable amount, an impairment test is performed.

The recoverable amount of assets or cash-generating units is measured using the higher of the fair value less costs to sell and its value in use, which is the present value of projected cash flows covering the remaining useful lives of the assets. Impairment losses are recognised when the asset's carrying value exceeds its estimated recoverable amount. Where applicable, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Previously recognised impairment losses, other than for goodwill, are reviewed annually for any indication that it may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed through the income statement if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Asset retirement obligations

Asset retirement obligations related to property, plant and equipment and intangible assets are provided for at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges. Asset retirement obligations are reviewed annually and changes in the liability are added to, or deducted from, the cost of the reflected asset. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit and loss.

2. Significant accounting policies (continued)

Asset retirement obligations (continued)

Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate, are accounted for as follows:

- changes in the liability are added to, or deducted from, the cost of the reflected asset. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit and loss.
- adjustments that result in additions to the cost of assets, are tested for impairment if it is considered that the new carrying value of the asset is not fully recoverable.

Intangible assets

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on the acquisition of subsidiaries and joint ventures is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. A recognised impairment loss is not reversed.

Licences, software, trademarks, copyrights and other

Licences, software, trademarks, copyrights and other intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. The residual value of intangible assets is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the assets useful life, which can be used to estimate the residual values. The residual values of intangible assets and their useful lives are reviewed on an annual basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use, are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Assets under construction represent application and other non integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

Intangible assets are derecognised when they have been disposed of or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an asset are recognised in the income statement in the year in which they arise.

The expected useful lives assigned to intangible assets are:

	Years
Licences	5 to 30
Software	2 to 8
Trademarks, copyrights and other	3 to 15

Repairs and maintenance

The Group expenses all costs associated with the repair and maintenance of its telecommunications network, unless it is probable that such costs would result in future economic benefits flowing to the Group, and the costs can be reliably measured.

Borrowing costs

Financing costs directly associated with the acquisition or construction of assets that require more than three months to complete and place in service are capitalised at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of Group borrowings was utilised. Other borrowing costs are expensed as incurred.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

Inventories

Installation material, maintenance and network equipment inventories are stated at the lower of cost, determined on a weighted average basis, or estimated net realisable value. Merchandise inventories are stated at the lower of cost, determined on a first-in first-out ('FIFO') basis, or estimated net realisable value. Write-down of inventories arises when, for example, goods are damaged or when net realisable value is lower than carrying value.

2. Significant accounting policies (continued)

Financial instruments

Recognition and initial measurement

All financial instruments are initially recognised at fair value, plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the Group becomes a party to their contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Subsequent to initial recognition, the Group classifies financial assets as ‘at fair value through profit or loss’, ‘held-to-maturity investments’, ‘loans and receivables’, or ‘available-for-sale’. The measurement of each is set out below.

Financial assets at fair value through profit or loss

The Group classifies financial assets that are held for trading in the category 'financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives not designated as hedges are also classified as held for trading. Gains or losses on held for trading financial assets are recognised in net finance charges for the year.

Held-to-maturity assets

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held-to-maturity when the Group has the positive intention and ability to hold to maturity. These assets are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method. This calculation includes all fees paid or received between parties to the contract. For investments carried at amortised cost, gains and losses are recognised in net profit or loss when the investments are sold or impaired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are designated as available-for-sale, or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains and losses being recognised as a separate component of equity.

Financial liabilities

Subsequent to initial recognition, the Group measures all financial liabilities, including trade and other payables, at amortised cost using the effective interest rate method, except for financial liabilities held at fair value through profit and loss. Such liabilities, including derivative liabilities, are measured at fair value, with gains and losses arising on the change in fair value recognised in net finance charges for the year. Financial liabilities are classified as held for trading if they are acquired for the purpose of purchasing in the near term.

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques such as discounted cash flow analysis.

Listed investments

Listed investments are subsequently measured at fair value, which is calculated by reference to the quoted selling price at the close of business on the balance sheet date.

Trade and other receivables

Trade and other receivables are classified as ‘loans and receivables’. Short-term trade receivables are subsequently measured at the original invoice amount where the effect of discounting is not material. Long-term trade receivables are subsequently measured at amortised cost.

Bills of exchange and promissory notes

Bills of exchange and promissory notes classified as held to maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. Bills of exchange held as trading instruments are classified as at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call and term deposits with an initial maturity of less than three months.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

Derivative financial instruments

All derivative financial instruments are measured at fair value subsequent to initial recognition with gains and losses taken to finance charges.

The estimated fair values of derivatives are determined based on relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are determined as the present value of the net future interest cash flows. The fair value of currency swaps is determined with reference to the present value of expected future cash flows. The Group’s derivative transactions, while providing effective economic hedges under the risk management policies, do not qualify for hedge accounting under the specific rules of IAS39.

2. Significant accounting policies (continued)

Financial instruments (continued)

Repurchase agreements

Securities sold under repurchase agreements are not derecognised. These transactions are treated as collateralised arrangements and classified as non-trading liabilities and carried at amortised cost.

Securities purchased under repurchase agreements are not recognised. These transactions are treated as collateralised lending arrangements and classified as loans and receivables. Loans are recorded at amortised cost.

All associated finance charges are taken to the income statement.

Capital and money market transactions

New bonds and commercial paper bills issued are subsequently measured at amortised cost using the effective interest rate method.

Bonds and commercial paper bills are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges.

Bonds issued where Telkom is a buyer and seller of last resort are carried at fair value. The Group does not actively trade in bonds.

Derecognition

A financial instrument or a portion of a financial instrument will be derecognised and a gain or loss recognised when the Group's contractual rights expire or financial assets are transferred.

On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges for the year. For available-for-sale assets, the fair value adjustment relating to prior revaluations of assets is transferred from equity and recognised in finance charges for the year.

Impairment of financial assets

At each balance sheet date an assessment is made of whether there are any indicators of impairment of financial assets based on observable data about one or more loss events that occurred after the initial recognition of the asset. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. The recoverable amount of financial assets carried at amortised cost is calculated as the present value of expected future cash flows discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss for financial assets other than those classified as available-for-sale and those carried at cost, decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Impairments of available-for-sale financial assets and those carried at cost are not reversed through profit and loss.

Foreign currencies

Each entity within the Group determines its functional currency. The Group's presentation currency is the South African Rand ('ZAR').

Transactions denominated in foreign currencies are measured at the rate of exchange at transaction date. Monetary items denominated in foreign currencies are remeasured at the rate of exchange at settlement date or balance sheet date. Realised and unrealised gains and losses on foreign exchange are included in finance charges.

The annual financial statements of foreign operations are translated into South African Rand, the Group's presentation currency, for incorporation into the consolidated annual financial statements. Assets and liabilities of foreign operations are translated at the foreign exchange rates ruling at the balance sheet date. Income, expenditure and cash flow items are measured at the actual foreign exchange rate or average foreign exchange rates for the period. All resulting unrealised exchange differences are classified as equity. On disposal, the cumulative amounts of unrealised exchange differences that have been deferred are recognised in the consolidated income statement as part of the gain or loss on disposal.

Gains and losses on the translation of loans to foreign operations that are part of the net investment in the foreign operation are recognised in equity if the loans are denominated in one of the entities' functional currencies. If the loans are denominated in a third currency, gains or losses are recognised in the income statement.

Goodwill and intangible assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the foreign exchange rates ruling at balance sheet date.

Treasury shares

Where a group entity acquires or in substance acquires Telkom shares, such shares are measured at cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such shares are not remeasured for changes in their fair value.

Insurance contracts

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are accounted for gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior accounting periods. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed. The net earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

2. Significant accounting policies (continued)

Insurance contracts (continued)

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained income.

Taxation

Current taxation

The charge for current taxation is based on the results for the year and is adjusted for non-taxable income and non-deductible expenditure. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is accounted for using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses, unused tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Exchange differences arising from the translation of foreign taxation assets and liabilities of foreign entities are classified as deferred taxation expense or income.

Secondary Taxation on Companies

Secondary Taxation on Companies ('STC') is provided for at a rate of 12.5% on the amount by which dividends declared by the Group exceeds dividends received. Deferred tax on unutilised STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for set-off.

Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined contribution plans

The Group's funding of the defined contribution plans is charged to employee expenses in the same year as the related service is provided.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, calculated by using the projected unit credit method, as adjusted for unrecognised actuarial gains and losses, unrecognised past service costs and reduced by the fair value of plan assets. The amount of any surplus recognised is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement to the surplus (i.e. no economic benefit is available), no asset is recognised. No gain is recognised solely as a result of an actuarial loss or past service cost in the current period and no loss is recognised solely as a result of an actuarial gain or past service cost in the current period.

Actuarial gains and losses are recognised as employee expenses when the cumulative unrecognised gains and losses for each individual plan exceed 10% of the greater of the present value of the Group's obligation and the fair value of plan assets. These gains or losses are amortised on a straight-line basis over ten years for all the defined benefit plans.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise they are recognised on a straight-line basis over the average period the benefits become vested.

Leave benefits

Annual leave is provided for over the period that the leave accrues and is subject to a cap of 25 days.

2. Significant accounting policies (continued)

Employee benefits (continued)

Workforce reduction

Workforce reduction expenses are payable when employment is terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for benefits. Workforce reduction benefits are recognised when the entity is demonstrably committed and it is probable that the expenses will be incurred.

Deferred bonus incentives

Employees of the wholly owned subsidiaries of Vodacom, including executive directors, are eligible for compensation benefits in the form of a Deferred Bonus Incentive Scheme. The benefit is recorded at the present value of the expected future cash outflows.

Share-based compensation

The grants of equity instruments, made to employees in terms of the Telkom Conditional Share Plan, are classified as equity-settled share-based payment transactions. The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date, adjusted for the lack of entitlement to dividends during the vesting period. This compensation cost is recognised over the vesting period, based on the best available estimate at each balance sheet date of the number of equity instruments that are expected to vest.

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the year the employees render services, unless the Group uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the related property, plant and equipment item.

Long-term incentive provision

The Vodacom group provides long-term incentives to eligible employees payable on termination or retirement. The Group's liability is based on an actuarial valuation. Actuarial gains and losses are recognised as employee expenses when the cumulative unrecognised gains and losses for each individual plan exceed 10% of the greater of the present value of the Group's obligation and the fair value of plan assets. These gains or losses are amortised on a straight-line basis over ten years.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation.

Deferred revenue and expenses

Activation revenue and costs are recognised in accordance with the principles contained in Emerging Issues Task Force Issue No. 00-21, Revenue Arrangements with Multiple Deliverables ('EITF 00-21'), issued in the United States. This results in activation revenue and costs up to the amount of the deferred revenue being deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. The excess of the costs over revenues is expensed immediately.

Operating revenue

The Group provides fixed-line and data communication services and mobile communication services, directory services and communication related products. The Group provides such services to business, residential, payphone and mobile customers. Revenue represents the value of fixed or determinable consideration that has been received or is receivable.

Revenue for services is stated at amounts invoiced to customers and excludes Value Added Tax.

Revenue is recognised when there is evidence of an arrangement, collectability is reasonably assured, and the delivery of the product or service has occurred. In certain circumstances revenue is split into separately identifiable components and recognised when the related components are delivered in order to reflect the substance of the transaction. The value of components is determined using verifiable objective evidence. The Group does not provide customers with the right to a refund.

Fixed-line

Subscriptions, connections and other usage

The Group provides telephone and data communication services under postpaid and prepaid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected customer relationship period. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the expected average customer relationship period. All other installation and activation costs are expensed as incurred.

Postpaid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Revenue related to sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service.

Traffic (Domestic, Fixed-to-mobile and International)

Prepaid

Prepaid traffic service revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain prepaid products allow the carry over of unused minutes. Revenue related to the carry over of unused minutes is deferred until usage or expiration.

2. Significant accounting policies (continued)

Operating revenue (continued)

Fixed-line (continued)

Traffic (Domestic, Fixed-to-mobile and International) (continued)

Payphones
Payphone service coin revenue is recognised when the service is provided.

Payphone service card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

Postpaid
Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

Interconnection
Interconnection revenue for call termination, call transit, and network usage is recognised in the year the traffic occurs.

Data
The Group provides data communication services under postpaid and prepaid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected average customer relationship period. Costs incurred on first time installations that form an integral part of the network are capitalised and depreciated over the life of the expected average customer relationship period. All other installation and activation costs are expensed as incurred. Postpaid and prepaid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period.

Directory services
Revenue is recognised when paper directories are released for distribution, as the significant risks and rewards have passed. Electronic directories' revenue is recognised on a monthly basis, as earned.

Other

Other revenue is recognised when the economic benefit flows to the entity and the earnings process is complete.

Mobile

Contract products
Contract products that may include deliverables such as a handset and 24-month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

Revenue from the handset is recognised when the product is delivered. Monthly service revenue received from the customer is recognised in the period in which the service is delivered. Airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products, where applicable, allow the carry over of unused airtime. The unused airtime is deferred in full. Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in income.

Prepaid products
Prepaid products that may include deliverables such as a SIM-card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a stand alone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the SIM-card is recognised over the period of the average customer relationship of a prepaid customer.
- Airtime revenue is recognised on the usage basis. Unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer relationship, all deferred revenue for unused airtime is recognised in revenue.

Upon purchase of an airtime voucher the customer receives the right to make outgoing voice and data calls to the value of the airtime voucher. Revenue is recognised as the customer utilises the voucher.

Deferred revenue and costs related to unactivated starter packs which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated by a customer becomes remote. In this regard the Group applies a period of 36 months before these revenue and costs are released to the income statement.

Equipment sales
All equipment sales are recognised only when delivery and acceptance has taken place. Equipment sales to third party service providers are recognised when delivery is accepted. No rights of return exist on sales to third party service providers.

Investment income

Dividends from investments are recognised on the date that the Group is entitled to the dividend. Interest is recognised on a time proportion basis taking into account the principal amount outstanding and the effective interest rate.

2. Significant accounting policies (continued)

Operating revenue (continued)

Interest on debtor's accounts

Interest is raised on overdue accounts on a time proportion basis and recognised in the income statement.

Leases

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

Initial direct costs incurred in negotiating and securing lease arrangements are added to the amount recognised as an asset.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term. Assets subject to operating leases are presented according to the nature of the asset.

Assets acquired in terms of finance leases are capitalised at the lower of fair value or the net present value of the minimum lease payments at inception of the lease and depreciated over the lesser of the useful life of the asset or the lease term. The capital element of future obligations under the leases is included as a liability in the balance sheet. Lease finance costs are amortised in the income statement over the lease term using the effective interest rate method. Where a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount is deferred and recognised in the income statement over the term of the lease.

Where the Group is the lessor, assets held under a finance lease are recognised in the balance sheet and presented as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease.

Segmental reporting

The Group is managed in two business segments, which form the primary segment reporting basis: Fixed-line and Mobile. The Group's two segments operate mainly in South Africa, but the mobile segment has businesses in certain other African countries. The geographical location of the Group's customers has been identified as the secondary basis of segment reporting. The basis of segment reporting is representative of the Group's internal reporting structure.

The Fixed-line business segment provides local telephony, domestic and international long-distance services as well as leased lines, data transmission, directory services and internet access.

The Mobile business segment provides mobile telephony services as well as the sale of mobile equipment.

Inter-segment sales are accounted for in the same way as sales to third parties at current market prices.

Marketing

Marketing costs are recognised as an expense as incurred.

Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for new activations and retention of existing customers for services delivered are expensed in the period that the related revenue is recognised.

Distribution incentives paid to service providers and dealers for exclusivity are deferred and expensed over the contractual relationship period.

Prior period errors

The Group made certain retrospective changes to its application of certain accounting standards. The changes were:

- Lease payments and receipts under operating leases have been restated in order to recognise the expenses and income on a straight-line basis over the lease terms. This ensures that the income statement charge/income is more representative of the time pattern of the operating lease benefit/cost to the Group. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The restatement impacts the Group's results for the years ended March 31, 2005 and 2004.
- IT Software items have been reclassified from Property, plant and equipment to Intangible assets and the related depreciation from Depreciation to Amortisation. The Group has identified and recorded certain software that was previously included as part of Property, plant and equipment as a separate intangible asset because it is not considered an integral part of the related hardware;
- Investment properties have been restated to Property, plant and equipment. The Vodacom Group previously classified its Vodaworld property as an investment property. However, the primary purpose of the property is to service and connect Vodacom customers. The property, therefore, does not meet the criteria of IAS 40: Investment Property, i.e. to earn rentals or for capital appreciation; and
- Other financial assets and liabilities, previously classified as non-current, have been reclassified to current assets and liabilities, as they represent derivatives classified as held for trading.

The following table reflects the values of the different line items prior and subsequent to the change in accounting policy and prior period errors as discussed in this note:

2. Significant accounting policies (continued)

		Change in accounting policy	Prior period errors				
	Balances as previously reported Rm	Revenue recognition Rm	Operating leases Rm	Software Rm	Investment properties Rm	Financial assets/ liabilities Rm	Balances as restated Rm
March 31, 2004							
Income statement							
Operating revenue	40,484	98					40,582
Selling, general and administrative expenses	7,660		5				7,665
Taxation	1,711	29	(2)				1,738
Profit attributable to equity holders of Telkom	4,523	69	(3)				4,589
Balance sheet							
Non-current assets							
Property, plant and equipment	39,024			(1,300)	32		37,756
Investment properties	32				(32)		–
Intangible assets	564			1,300			1,864
Other financial assets	1,101					(1,101)	–
Deferred expenses	202		11				213
Current assets							
Other financial assets	140					1,101	1,241
Equity							
Retained earnings	14,225	(713)	(30)				13,482
Non-current liabilities							
Deferred taxation	773	(291)	(13)				469
Deferred revenue	353	690	54				1,097
Other financial liabilities	153					(153)	–
Current liabilities							
Current portion of deferred revenue	1,404	314					1,718
Other financial liabilities	492					153	645

2. Significant accounting policies (continued)

		Change in accounting policy	Prior period errors				
	Balances as previously reported Rm	Revenue recognition Rm	Operating leases Rm	Software Rm	Investment properties Rm	Financial assets/ liabilities Rm	Balances as restated Rm
March 31, 2005							
Income statement							
Operating revenue	43,117	43					43,160
Selling, general and administrative expenses	8,820		4				8,824
Taxation	3,071	12	(1)				3,082
Profit attributable to equity holders of Telkom	6,723	31	(3)				6,751
Balance sheet							
Non-current assets							
Property, plant and equipment	39,073			(2,650)	25		36,448
Investment properties	25				(25)		–
Intangible assets	532			2,650			3,182
Other financial assets	134					(134)	–
Deferred expenses	118		15				133
Current assets							
Other financial assets	4,940					134	5,074
Equity							
Retained earnings	19,946	(682)	(33)				19,231
Non-current liabilities							
Deferred taxation	1,239	(279)	(13)				947
Deferred revenue	260	638	61				959
Other financial liabilities	83					(83)	–
Current liabilities							
Current portion of deferred revenue	1,394	323					1,717
Other financial liabilities	230					83	313

	2004 Rm	2005 Rm	**2006 Rm**
3. Revenue			
3.1 Total revenue	41,115	43,696	**48,260**
Operating revenue	40,582	43,160	**47,625**
Other income (excluding profit on disposal of property, plant and equipment and investments, refer to note 4)	211	186	**238**
Investment income (Refer to note 6)	322	350	**397**
3.2 Operating revenue	40,582	43,160	**47,625**
Fixed-line	30,541	30,888	**32,039**
Mobile	10,041	12,272	**15,586**
Fixed-line	30,541	30,888	**32,039**
Subscriptions, connections and other usage	5,117	5,385	**5,803**
Traffic	18,313	17,723	**17,534**
Domestic (local and long distance)	9,680	9,286	**8,886**
Fixed-to-mobile	7,321	7,302	**7,647**
International (outgoing)	1,312	1,135	**1,001**
Interconnection	1,441	1,320	**1,433**
Data	4,792	5,484	**6,223**
Directories and other	878	976	**1,046**

Change in comparatives

Operating revenue has increased by R43 million in 2005 (2004: R98 million) due to the change in fixed-line policy for recognising connection revenues (Refer to note 2).

	2004 Rm	2005 Rm	**2006 Rm**
4. Other income	255	280	**480**
Other income (Included in Total revenue, refer to note 3)	211	186	**238**
Interest received from debtors	157	129	**136**
Sundry income	54	57	**102**
Profit on disposal of property, plant and equipment and intangible assets	19	30	**79**
Profit on disposal of investment	25	64	**163**

Sundry income includes rental received for the partial sub-letting of commercial properties (Refer to note 35).

The profit on disposal of property, plant and equipment and intangible assets is mainly due to the sale of land and buildings as part of the Group's strategy of selling non-core properties as well as a profit realised on the trade-in of software licenses as part of an upgrade of reporting software utilised.

	2004 Rm	2005 Rm	**2006** **Rm**
5. Operating expenses			
Operating expenses comprise:			
5.1 Employee expenses	7,408	8,111	**7,489**
Salaries and wages	5,424	5,573	**5,566**
Medical aid contributions	408	406	**371**
Retirement contributions (Refer to note 28)	466	474	**435**
Post-retirement pension and retirement fund (Refer to note 28)	22	12	**(58)**
Current service cost	3	3	**4**
Interest cost	297	320	**364**
Expected return on plan assets	(452)	(360)	**(454)**
Actuarial losses	2	34	**78**
Asset limitation	172	15	**(50)**
Post-retirement medical aid (Refer to note 26 and 28)	272	182	**361**
Current service cost	24	27	**48**
Interest cost	249	249	**249**
Actuarial loss	–	–	**63**
Settlement (gain)/loss	(3)	18	**7**
Curtailment loss/(gain)	2	(112)	**(6)**
Retirement and pension fund deficit (Refer to note 26 and 28)			
Interest cost	44	–	**–**
Telephone rebates (Refer to note 26 and 28)	2	15	**19**
Current service cost	4	2	**3**
Interest cost	19	16	**16**
Curtailment gain	–	(3)	**–**
Actuarial gain	(21)	–	**–**
Share-based compensation expense	–	68	**127**
Other benefits	982	992	**1,200**
Workforce reduction expense	302	961	**88**
Employee expenses capitalised	(514)	(572)	**(620)**

Curtailment loss/(gain)

The curtailment loss/(gain) resulted from a reduction in the number of participants covered by the post-retirement medical aid and telephone rebates.

Settlement (gain)/loss

The settlement (gain)/loss resulted from a transaction between the Group and participants of the post-retirement medical aid. The participants were offered a lump sum in exchange for the right to receive specified post-employment benefits.

Other benefits

Other benefits include skills development, annual leave, performance incentive and service bonuses.

Workforce reduction expense

The Group recognises the cost of workforce reduction associated with management's plan to reduce the size of its workforce to a comparable level for international telecommunications companies.

In concluding the Group's workforce reduction initiatives of the previous year, an additional 245 employees have left the Group (2005: 5,041; 2004: 1,633). These employees include management and operating staff.

	2004 Rm	2005 Rm	2006 Rm
5. Operating expenses (continued)			
5.2 Payments to other operators	5,985	6,132	**6,826**
Payments to other network operators consist of expenses in respect of interconnection with other network operators.			
5.3 Selling, general and administrative expenses	7,665	8,824	**10,273**
Selling and administrative expenses	4,862	5,863	**7,574**
Maintenance	1,868	1,993	**1,594**
Marketing	657	740	**899**
Bad debts	278	228	**206**
Change in comparatives			
Selling and administrative expenses has increased by R4 million in 2005 (2004: R5 million) due to the restatement of expenses relating to operating leases (Refer to note 2).			
5.4 Services rendered	2,269	2,021	**2,114**
Facilities and property management	1,164	1,069	**1,110**
Consultancy services – managerial fees	239	159	**182**
Security and other	806	759	**772**
Auditor's remuneration	60	34	**50**
Audit services	41	31	**38**
Company auditors	32	19	**28**
Current year	31	19	**26**
Prior year underprovision	1	–	**2**
Other auditors – current year	9	12	**10**
Audit related services	6	3	**9**
Company auditors	4	–	**6**
Other auditors	2	3	**3**
Tax services – other auditors	1	–	**–**
Other services	7	–	**3**
Company auditors	7	–	**–**
Other auditors	–	–	**3**
Telkom IPO related fees			
Other auditors – prior year underprovision	5	–	**–**
Audit related services include the review of new systems related controls, as well as services performed to assist management in assessing the status of its compliance with the requirements of the Sarbanes-Oxley Act.			
5.5 Operating leases	924	803	**850**
Buildings	196	204	**221**
Transmission and data lines	16	16	**42**
Equipment	85	81	**78**
Vehicles	627	502	**509**

	2004 Rm	2005 Rm	**2006 Rm**
5. Operating expenses (continued)			
5.6 Depreciation, amortisation, impairment and write-offs	7,248	6,288	**5,876**
Depreciation of property, plant and equipment (Refer to note 10)	6,092	5,442	**5,154**
Amortisation of intangible assets (Refer to note 11)	806	502	**560**
Impairment of intangible assets (Refer to note 11)	–	49	**–**
Impairment of property, plant and equipment (Refer to note 10)	149	85	**–**
Reversal of impairment of property, plant and equipment (Refer to note 10)	–	–	**(26)**
Write-offs of property, plant and equipment (Refer to note 10)	201	210	**188**

In recognition of the changed usage patterns of certain items of property, plant and equipment, the Group reviewed their remaining useful lives in the current year. The assets affected were certain items included in network and support equipment. The revised estimated useful lives of these assets as set out below, resulted in a decrease of the current year depreciation charge.

	Original life Years	**Revised life Years**
Network equipment	2 – 15	**5 – 22**
Support equipment	5	**8**

	2004 Rm	2005 Rm	**2006 Rm**
6. Investment income	322	350	**397**
Interest received	312	336	**347**
Dividends received	10	14	**50**
7. Finance charges	3,264	1,695	**1,233**
Interest	2,488	1,686	**1,346**
Local debt	2,253	1,515	**1,506**
Foreign debt	303	281	**9**
Less: Finance costs capitalised	(68)	(110)	**(169)**
Foreign exchange gains and losses and fair value adjustments	776	9	**(113)**
Foreign exchange (gains)/losses	(368)	112	**57**
Fair value adjustments on derivative instruments	1,144	(103)	**(170)**
Capitalisation rate	15.14%	15.23%	**13.91%**
8. Taxation	1,738	3,082	**4,520**
South African normal company taxation	953	2,492	**3,760**
Current taxation	960	2,496	**3,751**
(Overprovision)/underprovision for prior year	(7)	(4)	**9**
Deferred taxation	631	346	**173**
Temporary differences – normal company taxation	893	607	**229**
Temporary difference – Secondary Taxation on Companies ('STC') tax credits (raised)/utilised	(199)	(151)	**51**
Overprovision for prior year	(63)	(73)	**(107)**
Change in tax rate from 30% to 29%	–	(37)	**–**
Secondary Taxation on Companies	151	238	**585**
Foreign taxation	3	6	**2**

		2004	2005	2006
8.	**Taxation** (continued)			
	Reconciliation of taxation rate	%	%	**%**
	Effective rate	27.2	31.1	**32.7**
	South African normal rate of taxation	30.0	30.0	**29.0**
	Adjusted for:	(2.8)	1.1	**3.7**
	Exempt income	(3.1)	(1.0)	**(1.3)**
	Disallowable expenditure	2.7	2.0	**0.9**
	Tax losses not utilised	0.2	0.3	**0.6**
	Utilisation of assessed losses	(0.6)	(0.1)	**–**
	STC paid	2.4	2.4	**4.2**
	STC tax credits (raised)/utilised	(3.2)	(1.5)	**0.4**
	Change in tax rate from 30% to 29%	–	(0.4)	**–**
	Overprovision for prior year	(1.2)	(0.6)	**(1.1)**

The Group operates in several African countries, and accordingly is subject to, and pays annual income taxes under the tax regimes of those countries. The Group has historically filed, and continues to file, all required income tax returns. Management believes that the principles applied in determining the Group's tax obligations are consistent with the principles and interpretations of the relevant countries' tax laws. The tax rules and regulations in these countries are highly complex and subject to interpretation. Additionally, for the foreseeable future, management expects such tax laws to further develop through changes in the countries' existing tax structure as well as clarification of the existing tax laws through published interpretations and the resolution of actual tax cases.

During each of the years presented, provisions have been made or adjusted for anticipated obligations related to various ongoing investigations by tax authorities. The provisions made include estimates of anticipated interest and penalties where appropriate. As of March 31, 2006, 2005 and 2004, the Group has accrued for tax obligations in the amount of R199 million, R262 million and R176 million, respectively. These amounts represent, what management believes will be the probable outcome of such disputes for all tax years for which additional taxes can be assessed. To the extent management determines the estimated obligations should be revised, disputes are resolved in a manner that is favourable to the Group or the statute of limitations related to a dispute expires, these obligations will be adjusted accordingly at that time.

During the 2005 financial year, Telkom entered into an agreement with its subsidiary Rossal No. 65 (Proprietary) Limited, to manage, hold and transfer shares to employees in terms of the Telkom Conditional Share Plan. A deferred tax liability of R20 million (2005: R26 million) has been recorded related to this agreement.

Change in comparatives

Deferred taxation has increased by R11 million in 2005 (2004: R27 million) due to the change in fixed-line policy for recognising connection revenues and the restatement on operating leases (Refer to note 2).

		2004	2005	2006
9.	**Earnings per share**			
	Basic earnings per share (cents)	823.9	1,246.7	**1,744.7**

The calculation of earnings per share is based on profit attributable to equity holders of Telkom for the year of R9,182 million (2005: R6,751 million; 2004: R4,589 million) and 526,271,093 (2005: 541,498,547; 2004: 556,994,962) weighted average number of ordinary shares in issue.

Reconciliation of weighted average number of ordinary shares	2004	2005	2006
Ordinary shares in issue	557,031,819	557,031,819	**544,944,899**
Weighted average number of treasury shares	(36,857)	(15,533,272)	**(18,673,806)**
Weighted average number of shares outstanding	556,994,962	541,498,547	**526,271,093**

	2004	2005	**2006**
9. Earnings per share (continued)			
Diluted earnings per share (cents)	823.9	1,244.3	**1,735.2**

The calculation of diluted earnings per share is based on earnings for the year of R9,182 million (2005: R6,751 million; 2004: R4,589 million) and 529,152,318 diluted weighted average number of ordinary shares (2005: 542,537,579; 2004: 556,994,962). he adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.

	2004	2005	**2006**
Headline earnings per share (cents)*	875.2	1,279.0	**1,727.2**

The calculation of headline earnings per share is based on headline earnings of R9,090 million (2005: R6,926 million; 2004: R4,875 million) and 526,271,093 (2005: 541,498,547; 2004: 556,994,962) weighted average number of ordinary shares in issue.

	2004	2005	**2006**
Diluted headline earnings per share (cents)	875.2	1,276.6	**1,717.8**

The calculation of diluted headline earnings per share is based on headline earnings of R9,090 million (2005: R6,926 million; 2004: R4,875 million) and 529,152,318 (2005: 542,537,579; 2004: 556,994,962) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as result of the expected future vesting of shares already allocated to employees under the Telkom Conditional Share Plan.

Reconciliation between earnings and headline earnings	Rm	Rm	Rm
Earnings as reported	4,589	6,751	**9,182**
Adjustments:			
Profit on disposal of investment	(25)	(64)	**(163)**
Profit on disposal of property, plant and equipment and intangible assets	(19)	(30)	**(79)**
Impairment of property, plant and equipment and intangible assets	149	134	**(26)**
Write-offs of property, plant and equipment	201	210	**188**
Acquisition of subsidiary	–	–	**(35)**
Amortisation of goodwill	72	–	**–**
Tax and minority interest effects	(92)	(75)	**23**
Headline earnings	4,875	6,926	**9,090**
Reconciliation of diluted weighted average number of ordinary shares			
Ordinary shares in issue	557,031,819	557,031,819	**544,944,899**
Expected future vesting of shares	–	1,039,032	**2,881,225**
Weighted average number of treasury shares	(36,857)	(15,533,272)	**(18,673,806)**
Weighted average number of shares outstanding	556,994,962	542,537,579	**529,152,318**
Dividend per share (cents)	90.0	110.0	**900.0**

The calculation of dividend per share is based on dividends of R4,801 million (2005: R606 million; 2004: R501 million) declared on June 2, 2005 and 533,465,571 (2005: 551,509,083; 2004: 557,031,819) number of ordinary shares outstanding. The reduction in the number of shares represents the number of treasury shares held on date of payment.

* The disclosure of headline earnings is a requirement of the JSE Securities Exchange of South Africa and is not a recognised measure under IFRS and US GAAP. It has been calculated in accordance with the South African Institute of Chartered Accountant's circular issued in this regard.

Change in comparatives

The amounts for basic, diluted, headline and diluted headline earnings per share for 2005 and 2004 have changed as a result of the change in accounting policies and restatements as discussed in note 2. The effect of the change on previously reported numbers is immaterial.

10. Property, plant and equipment

	2004 Cost Rm	2004 Accumulated depreciation Rm	2004 Carrying value Rm	2005 Cost Rm	2005 Accumulated depreciation Rm	2005 Carrying value Rm	**2006 Cost Rm**	**2006 Accumulated depreciation Rm**	**2006 Carrying value Rm**
Freehold land and buildings	4,154	(1,364)	2,790	4,280	(1,615)	2,665	**4,510**	**(1,811)**	**2,699**
Leasehold buildings (Refer to note 24)	870	(222)	648	869	(251)	618	**940**	**(322)**	**618**
Network equipment	56,108	(26,974)	29,134	58,318	(29,982)	28,336	**59,418**	**(30,477)**	**28,941**
Support equipment	4,032	(2,611)	1,421	3,790	(2,435)	1,355	**3,740**	**(2,419)**	**1,321**
Furniture and office equipment	450	(260)	190	456	(301)	155	**469**	**(335)**	**134**
Data processing equipment and software	5,905	(3,698)	2,207	5,288	(3,253)	2,035	**5,612**	**(3,530)**	**2,082**
Under construction	1,197	–	1,197	1,084	–	1,084	**1,320**	**–**	**1,320**
Other	510	(341)	169	585	(385)	200	**552**	**(393)**	**159**
	73,226	(35,470)	37,756	74,670	(38,222)	36,448	**76,561**	**(39,287)**	**37,274**

The carrying amounts of property, plant and equipment can be reconciled as follows:

	Carrying value at beginning of year Rm	Additions Rm	Business combinations/consolidations Rm	Transfers Rm	Transfer from/(to) intangible assets* Rm	Foreign currency translation Rm	Impairment and write-offs Rm	Disposals Rm	Depreciation Rm	Carrying value at end of year Rm
2006										
Freehold land and buildings	**2,665**	**105**	**–**	**174**	**–**	**–**	**(22)**	**(21)**	**(202)**	**2,699**
Leasehold buildings	**618**	**75**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(74)**	**618**
Network equipment	**28,336**	**2,622**	**–**	**2,228**	**–**	**(122)**	**(49)**	**(21)**	**(4,053)**	**28,941**
Support equipment	**1,355**	**130**	**–**	**106**	**–**	**(1)**	**(6)**	**(5)**	**(258)**	**1,321**
Furniture and office equipment	**155**	**19**	**–**	**4**	**–**	**–**	**–**	**–**	**(44)**	**134**
Data processing equipment and software	**2,035**	**381**	**1**	**140**	**13**	**(2)**	**(10)**	**(1)**	**(475)**	**2,082**
Under construction	**1,084**	**2,933**	**–**	**(2,622)**	**–**	**–**	**(75)**	**–**	**–**	**1,320**
Other	**200**	**45**	**–**	**(29)**	**–**	**(1)**	**–**	**(8)**	**(48)**	**159**
	36,448	**6,310**	**1**	**–**	**13**	**(126)**	**(162)**	**(56)**	**(5,154)**	**37,274**
2005										
Freehold land and buildings	2,790	42	3	137	–	–	(16)	(7)	(284)	2,665
Leasehold buildings	648	–	–	–	–	–	–	–	(30)	618
Network equipment	29,134	1,742	207	1,719	(135)	29	(194)	(6)	(4,160)	28,336
Support equipment	1,421	95	22	160	(51)	1	(8)	–	(285)	1,355
Furniture and office equipment	190	10	2	2	–	–	(3)	–	(46)	155
Data processing equipment and software	2,207	379	59	141	(162)	2	(20)	(1)	(570)	2,035
Under construction	1,197	2,123	–	(2,187)	–	–	(49)	–	–	1,084
Other	169	73	7	28	–	–	(5)	(5)	(67)	200
	37,756	4,464	300	–	(348)	32	(295)	(19)	(5,442)	36,448

	Carrying value at beginning of year Rm	Additions Rm	Business combinations/consolidations Rm	Transfers Rm	Transfer from/(to) intangible assets* Rm	Foreign currency translation Rm	Impairment and write-offs Rm	Disposals Rm	Depreciation Rm	Carrying value at end of year Rm
10. Property, plant and equipment (continued)										
2004										
Freehold land and buildings	2,722	64	3	287	–	(1)	(5)	(5)	(275)	2,790
Leasehold buildings	635	59	5	–	–	–	–	–	(51)	648
Network equipment	31,009	1,524	–	1,374	–	(143)	(333)	(18)	(4,279)	29,134
Support equipment	1,587	140	–	252	–	(4)	(4)	–	(550)	1,421
Furniture and office equipment	206	9	–	23	–	–	(1)	–	(47)	190
Data processing equipment and software	1,980	491	–	574	–	(14)	(5)	(2)	(817)	2,207
Under construction	1,077	2,598	–	(2,503)	25	–	–	–	–	1,197
Other	203	51	–	(7)	–	(2)	(2)	(1)	(73)	169
	39,419	4,936	8	–	25	(164)	(350)	(26)	(6,092)	37,756

Fully depreciated assets with a cost of R3,724 million were derecognised in the 2006 financial year. This has reduced both the cost price and accumulated depreciation of property, plant and equipment accordingly.

The average time taken to construct assets varies from three to four months.

Full details of land and buildings are available for inspection at the registered offices of the Group.

Change in comparatives

The comparatives have been restated due to the reclassification of software with a carrying value of R2,650 million in 2005 (2004: R1,300 million) to Intangible assets. Depreciation of R286 million (2004: R673 million) has also been reclassified to amortisation (Refer to note 11). This restatement excludes the mobile segment for 2004.

*The mobile portion of the restatement for 2004 was not done as it was considered impracticable to reliably determine these amounts. Therefore the cumulative correction for the mobile portion is reflected as a transfer in 2005.

The comparatives have also been restated for the reclassification of investment properties to property, plant and equipment with a carrying value of R25 million (2004: R32 million) as the property's primary purpose was deemed to have always been for the service and connection of customers and not for capital appreciation or rental income.

	2004 Rm	2005 Rm	**2006 Rm**
10. Property, plant and equipment (continued)			
Impairment and write-offs of assets	350	295	**162**
Assets under construction written-off	–	49	**75**
Data processing equipment and software	5	20	**10**
Assets relating to Vodacom Mozambique, S.A.R.L. *	–	12	**–**
Data processing equipment and software written off	5	8	**10**
Network equipment	333	194	**49**
Assets relating to Vodacom Mozambique, S.A.R.L. *	–	71	**–**
Reversal of impairment	–	–	**(26)**
*Due to the competitive, regulatory and economic environment in which VM, S.A.R.L. operates in Mozambique, the Group assessed the assets for impairment in accordance with the requirements of IAS36 Impairment of Assets ('IAS36'). The recoverable amount of these assets has been determined based on the fair value of the assets less costs to sell at March 31, 2006. The fair value of the assets was obtained from a knowledgeable, willing party on an arm's length basis, based on the assumption that the assets would be disposed of on an item by item basis. The amount with which the carrying amount exceeded the recoverable amount is recognised as an impairment loss. The reversal of the impairment loss related to an increase in the fair value of infrastructure assets.			
Telkom recognised an impairment loss for an earth station. This asset was developed to route traffic between the Public Switch Telephone Network ('PSTN') of Telkom and the Satellite Access Node ('SAN') of a satellite company. The satellite company has not met its current outstanding financial obligations to Telkom and management is of the opinion that no future payments will be received. Management has assessed the asset and it appears unlikely that there will be future economic benefits flowing to the Company to recover the carrying value.	149	–	**–**
Decommissioned and obsolete equipment written-off	184	123	**75**
Other			
Support equipment, land, buildings and other assets written-off	12	32	**28**

	2004			2005			**2006**		
	Cost Rm	Accumulated amortisation Rm	Carrying value Rm	Cost Rm	Accumulated amortisation Rm	Carrying value Rm	**Cost Rm**	**Accumulated amortisation Rm**	**Carrying value Rm**
11. Intangible assets									
Goodwill	553	(319)	234	269	–	269	**305**	**–**	**305**
Trademarks and copyrights	519	(280)	239	588	(389)	199	**685**	**(472)**	**213**
Licences	133	(42)	91	171	(107)	64	**155**	**(95)**	**60**
Software	3,103	(1,939)	1,164	4,674	(2,929)	1,745	**5,607**	**(3,338)**	**2,269**
Assets under construction	136	–	136	905	–	905	**1,063**	**–**	**1,063**
	4,444	(2,580)	1,864	6,607	(3,425)	3,182	**7,815**	**(3,905)**	**3,910**

11. Intangible assets (continued)

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning of year Rm	Additions Rm	Disposals Rm	Business combi-nations Rm	Impair-ment Rm	Foreign currency translation Rm	Amorti-sation Rm	Transfers Rm	Transfer from property plant, and equipment* Rm	Carrying value at end of year Rm
2006										
Goodwill	**269**	**–**	**–**	**37**	**–**	**(1)**	**–**	**–**	**–**	**305**
Trademarks, copyrights and other	**199**	**2**	**–**	**91**	**–**	**–**	**(81)**	**2**	**–**	**213**
Licences	**64**	**1**	**–**	**–**	**–**	**(1)**	**(4)**	**–**	**–**	**60**
Software	**1,745**	**219**	**(19)**	**–**	**–**	**(2)**	**(475)**	**801**	**–**	**2,269**
Assets under construction	**905**	**974**	**–**	**–**	**–**	**–**	**–**	**(816)**	**–**	**1,063**
	3,182	**1,196**	**(19)**	**128**	**–**	**(4)**	**(560)**	**(13)**	**–**	**3,910**
2005										
Goodwill	234	–	–	35	–	–	–	–	–	269
Trademarks, copyrights and other	239	–	–	68	–	–	(108)	–	–	199
Licences	91	–	–	26	(49)	5	(9)	–	–	64
Software	1,164	103	–	–	–	–	(385)	515	348	1,745
Assets under construction	136	1,284	–	–	–	–	–	(515)	–	905
	1,864	1,387	–	129	(49)	5	(502)	–	348	3,182
2004										
Goodwill	211	–	–	112	–	(9)	(72)	(8)	–	234
Trademarks, copyrights and other	94	4	–	194	–	–	(53)	–	–	239
Licences	51	57	–	–	–	(17)	(8)	8	–	91
Software	1,241	–	(25)	–	–	–	(673)	621	–	1,164
Assets under construction	386	371	–	–	–	–	–	(621)	–	136
	1,983	432	(25)	306	–	(26)	(806)	–	–	1,864

The carrying amounts of intangible assets pledged as security for liabilities at March 31, 2006 is R19 million, which consist of software items with a carrying value of R16 million and licenses with a carrying value of R3 million (Refer to note 24).

Fully amortised assets still in use at March 31, 2006 consist of trademarks, copyrights and certain software items.

Goodwill has been allocated for impairment testing purposes to six cash generating units of which four are in South Africa, one in the Democratic Republic of the Congo and one in Tanzania.

South Africa

The recoverable amounts of goodwill relating to Vodacom Service Provider Company (Proprietary) Limited, Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel VAS (Proprietary) Limited have been determined on the basis of value in use calculations. These companies operate in the same economic environment for which the same key assumptions were used. These value in use calculations use cash flow projections based on financial budgets approved by management covering a four to five year period and discount rates of between 10.6% and 14.9% in South African Rand terms. None of the cash flows were extrapolated beyond a five year period and therefore no nominal growth rates are applicable. Cash flow projections during the budget period for these companies are also based on the same expected growth in operating profit and Earnings before Interest, Taxation, Depreciation and Amortisation (‘EBITDA’). Management believes that any reasonable change in any of these key assumptions would not cause the aggregate carrying amount of these companies to exceed the aggregate recoverable amount of these units.

Democratic Republic of Congo

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Congo (RDC) s.p.r.l. The calculation uses cash flow projections based on financial budgets approved by management covering a five year period and a discount rate of 19.3% in US Dollar terms. Cash flows beyond this period have been extrapolated using annual nominal growth rates of between 2.5% and 4.4%. Management believes that these growth rates do not exceed the long-term average growth rate for the market in which this company operates. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

11. Intangible assets (continued)

Tanzania

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Tanzania Limited. The calculation uses cash flow projections based on financial budgets approved by management covering a five year period and a discount rate of 14.6% in US Dollar terms. Cash flows were not extrapolated beyond this initial five year period and therefore no nominal growth rate is applicable. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Change in comparatives

The comparatives have been restated due to the reclassification of software with a carrying value of R2,650 million (2004: R1,300 million) from Property, plant and equipment to Intangible assets. Depreciation of R286 million in 2005 (2004: R673 million) has also been reclassified to amortisation. (Refer to note 10)

* The mobile portion of the restatement for 2004 was not done as it was considered impracticable to reliably determine these amounts. Therefore the cumulative correction for the mobile portion is reflected as a transfer in 2005.

	2004 Rm	2005 Rm	**2006** **Rm**
12. Investments	1,567	2,277	**2,894**
Available for sale			
Unlisted investments	60	–	**–**
Rascom	–	–	**–**
0.70% (2005: 1.07%, 2004: 1.07%) interest in Regional African Satellite Communications Organisation, headquartered in Abidjan, Ivory Coast, at cost.			
Cost	1	1	**1**
Impairment	(1)	(1)	**(1)**
The fair value of the unlisted investments cannot be practicably determined. The directors' valuations are based on the Group's interest in the entities' net asset values converted at year-end exchange rates. The aggregate directors' valuation of the above unlisted investment is RNil (2005: RNil; 2004: RNil).			
Preference shares in Vodacom Congo (RDC) s.p.r.l.	60	–	**–**
The preference shares of USD19 million (Group share: USD9 million) bore interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding. With effect from April 1, 2004 Vodacom's control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date.			
Listed investments	57	8	**–**
New Skies N.V.	49	–	**–**
Nil% (2005: Nil%; 2004: 0.89%) interest in New Skies Satellite N.V., headquartered in The Hague, Netherlands, at fair value. Market value: RNil (2005: RNil; 2004: R49 million) New Skies Satellites N.V. was liquidated and a liquidation distribution of R55 million was received during 2005.			
Accordingly, the investment was derecognised and the gain recognised in Other income (Refer to note 4).			
SAGE Limited	8	8	**–**

9 090 909 ordinary shares of R0.01 each.

The SAGE shares were classified as an available-for-sale investment in prior periods. They were sold during the year at a loss of R1,85 million (Group share: R1 million) as a result of the delisting of SAGE.

	2004 Rm	2005 Rm	**2006 Rm**
12. Investments (continued)			
Loans and receivables	208	80	**89**
ABSA Bank Limited	39	–	**–**
At March 31, 2004, Vodacom Congo (RDC) s.p.r.l.'s deposit account amounted to €10 million (Group share: €5 million), which was charged as security for the extended credit facility of Vodacom Congo (RDC) s.p.r.l, and bore interest at EURIBOR less 0.2%. The deposit was refunded when the facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
Planetel Communications Limited	22	22	**21**
The loan with a nominal value of USD7 million (Group share: USD3 million) issued during the 2003 year, bears interest at LIBOR plus 5%. Planetel Communications Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over the shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period (Refer to note 24).			
Caspian Construction Company Limited	25	26	**25**
The loan with a nominal value of USD8 million (Group share: USD4 million) issued during the 2003 year, bears interest at LIBOR plus 5%. Caspian Construction Company Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over the shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding period (Refer to note 24).			
Vodacom Congo (RDC) s.p.r.l.	76	–	**–**
The joint venture partner's share of the loan issued by Vodacom International Limited to Vodacom Congo (RDC) s.p.r.l. amounted to USD24 million (Group share: USD12 million). The loan bore interest at LIBOR plus 6.5%. With effect from April 1, 2004 Vodacom's control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date.			
Tel.One (Pvt) Limited	46	32	**32**
The loan to Tel.One (Pvt) Limited is unsecured, interest-free and will be repaid through traffic revenue from June 2004 over 5 years. No traffic has been set off against the loan in the current financial year.			
Other receivables	–	–	**11**
Held-for-trading	1,410	2,258	**2,874**
Linked insurance policies – Coronation	553	765	**1,182**
Linked insurance policies – Investec	39	22	**24**
Ordinary shares – listed	234	667	**1,059**
Cash	88	559	**229**
Other money market investments	489	118	**284**
Government stock	–	68	**44**
Other unlisted investments	7	59	**52**

	2004 Rm	2005 Rm	**2006 Rm**
12. Investments (continued)			
Less: Short-term investments	(168)	(69)	**(69)**
Tel.One (Pvt) Limited	(10)	(10)	**(13)**
ABSA Bank Limited	(39)	–	**–**
Vodacom Congo (RDC) s.p.r.l.	(76)	–	**–**
Other money market investments	(35)	(51)	**(56)**
SAGE Limited	(8)	(8)	**–**

Included in held-for-trading investments is R2,819 million (2005: R2,208 million; 2004: R1,370 million) that will be used to fund the post-retirement medical aid liability. These investments have been made through a cell captive that has been consolidated in full.

	2004 Rm	2005 Rm	**2006 Rm**
13. Deferred revenue and Deferred expenses			
Deferred expenses	643	347	**480**
Long-term deferred expenses	213	133	**254**
Current portion of deferred expenses	430	214	**226**
The current portion of deferred expenses represents the deferral of connection costs (Refer to note 2).			
Deferred revenue	2,815	2,676	**2,966**
Long-term deferred revenue	1,097	959	**991**
Current portion of deferred revenue	1,718	1,717	**1,975**

Included in deferred revenue is profit on the sale and lease-back of certain Telkom buildings of R140 million (2005: R151 million; 2004: R162 million). A profit of R11 million per annum is recognised in income on a straight-line basis, over the period of the lease ending 2019 (Refer to note 35).

Change in comparatives

Long-term deferred revenue and Current portion of deferred revenue have increased by R638 million and R323 million in 2005 (2004: R690 million and R314 million) respectively due to the change in the fixed-line policy for recognising connection revenue (Refer to note 2).

Long-term deferred expenses and long-term deferred revenue have been restated by R15 million (2004: R11 million) and R61 million (2004: R54 million) respectively due to recognition of operating lease assets and liabilities.

	2004 Rm	2005 Rm	**2006 Rm**
14. Deferred taxation	(118)	(435)	**(587)**
Opening balance	240	(118)	**(435)**
Change in accounting policy (Refer to note 2)	331	–	**–**
Income statement movements	(631)	(346)	**(173)**
Temporary differences	(694)	(456)	**(280)**
Underprovision prior year	63	73	**107**
Change in tax rate	–	37	**–**
Business combinations	(63)	(19)	**21**
Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l.	–	48	**–**
Foreign equity revaluation	5	–	**–**
The balance comprises:	(118)	(435)	**(587)**
Capital allowances	(2,655)	(2,739)	**(2,634)**
Provisions, deferred income and other allowances	1,932	1,813	**1,634**
Tax losses	406	139	**112**
Secondary Taxation on Companies tax credits	199	352	**301**
Deferred tax balance is made up as follows:	(118)	(435)	**(587)**
Deferred tax assets	351	512	**481**
Deferred tax liabilities	(469)	(947)	**(1,068)**
Tax losses available for set-off against future taxable profits	1,517	178	**–**
Unutilised STC credits	1,594	2,801	**2,393**

Under South African tax legislation, tax losses for companies continuing to do business do not expire. The unused taxation losses available to reduce the net deferred taxation liability is R876 million (Group share: R438 million) (2005: R355 million; 2004: R165 million) (Group share 2005: R178 million; 2004: R83 million). The effect of this would be a R279 million (Group share: R140 million) (2005: R109 million; 2004: R25 million) (Group share: 2005: R55 million; 2004: R12 million) reduction in the net deferred taxation liability.

Secondary Taxation on Companies ('STC') is provided for at a rate of 12.5% on the amount by which dividends declared by the Group exceeds dividends received. The deferred tax asset is raised as it is considered probable that it will be utilised in the future. The asset will be released as a tax expense when dividends are declared.

Vodacom Congo (RDC) s.p.r.l. has recorded a deferred taxation asset for the 2006, 2005 and 2004 financial years even though the company was incurring losses in the past, it is currently generating taxable income. The Group has performed a detailed calculation of future taxable income to support the recognition of the deferred taxation asset.

Change in comparatives

Deferred taxation has decreased by R279 million in 2005 (2004: R291 million) due to the change in fixed line policy for recognising connection revenues (Refer to note 2).

Deferred taxation has decreased by R13 million in 2005 (2004: R13 million) due to the mobile change in policy for recognising operating leases (Refer to note 2).

	2004 Rm	2005 Rm	2006 Rm
15. Other financial instruments			
Other financial assets consist of:	1,241	5,074	**275**
Held-to-maturity			
Repurchase agreements	12	3,769	**–**
At fair value through profit or loss	1,229	1,305	**275**
Bills of exchange	19	77	**107**
Derivative instruments (Refer to note 37)	1,210	1,228	**168**

Repurchase agreements

Telkom manages a portfolio of repurchase agreements in the South African capital and money markets, with a view to generating additional investment income on the favourable interest rates provided on these transactions. Interest received from the borrower is based on the current market related yield.

2006

There were no repurchase agreements held at March 31, 2006.

2005

Maturity period	Yield	2004 Rm	2005 Rm	2006 Rm
7 days	7.35%		3,769	

2004

Maturity period	Yield	2004 Rm	2005 Rm	2006 Rm
7 days	9.21%	12		

Due to the short-term nature of these transactions and the fact that the transactions are initiated based on market-related interest rates, the carrying value approximates the fair value. Collateral in the form of publicly traded bonds has been received in respect of the above transactions.

The terms and conditions of these transactions are governed by signed International Securities Market Association ('ISMA') agreements with all counter parties and the regulations of the Bond Exchange of South Africa ('BESA').

Bills of exchange

The fair value of bills of exchange has been derived at with reference to BESA quoted prices.

Other financial liabilities consist of:

	2004 Rm	2005 Rm	2006 Rm
At fair value through profit or loss			
Derivative instruments (Refer to note 37)	(645)	(313)	**(235)**

Change in comparatives

R134 million in 2005 (2004: R1,101 million) of other financial assets has been reclassified from non-current assets to current assets. R83 million in 2005 (2004: R153 million) of other financial liabilities has been reclassified from non-current liabilities to current liabilities (Refer to note 2).

	2004 Rm	2005 Rm	**2006 Rm**
16. Inventories	520	658	**814**
Gross inventories	597	725	**916**
Write down of inventory to net realisable value	(77)	(67)	**(102)**
Inventories consist of the following categories:	520	658	**814**
Installation material, maintenance material and network equipment	265	313	**487**
Merchandise	255	345	**327**
Write down of inventory to net realisable value	77	67	**102**
Opening balance	75	77	**67**
Charged to selling, general and administrative expenses	28	30	**64**
Inventories written-off	(26)	(40)	**(29)**
17. Trade and other receivables	5,846	5,820	**6,399**
Trade receivables	5,222	5,222	**5,798**
Gross trade receivables	5,547	5,507	**6,088**
Impairment of receivables	(325)	(285)	**(290)**
Prepayments and other receivables	624	598	**601**
Impairment of receivables	325	285	**290**
Opening balance	337	325	**285**
Charged to selling, general and administrative expenses	278	228	**206**
Business combination	–	3	**–**
Write-off	(290)	(271)	**(201)**
18. Net cash and cash equivalents	2,796	2,301	**4,255**
Cash shown as current assets	3,218	3,210	**4,948**
Cash and bank balances	1,219	2,375	**1,853**
Short-term deposits	1,999	835	**3,095**
Credit facilities utilised	(422)	(909)	**(693)**
Undrawn borrowing facilities	2,995	4,750	**9,519**

The undrawn borrowing facilities are unsecured, bear interest at a rate linked to the prime interest rate, have no specific maturity date and are subject to annual review. The facilities are in place to ensure liquidity (Refer to note 37).

Borrowing powers

To borrow money, Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants of the TL20 loan (Refer to note 24).

	2004 Rm	2005 Rm	**2006 Rm**

19. Share capital and premium

Authorised and issued share capital and share premium are made up as follows:

	2004 Rm	2005 Rm	**2006 Rm**
Authorised	10,000	10,000	**10,000**
999,999,998 ordinary shares of R10 each	10,000	10,000	**10,000**
1 (2005:1; 2004:1) Class A ordinary share of R10	–	–	**–**
1 (2005:1; 2004:1) Class B ordinary share of R10	–	–	**–**
Issued and fully paid	8,293	8,293	**6,791**
544,944,897 (2005: 557,031,817; 2004:557,031,817) ordinary shares of R10 each	5,570	5,570	**5,449**
1 (2005: 1; 2004:1) Class A ordinary share of R10	–	–	**–**
1 (2005: 1; 2004:1) Class B ordinary share of R10	–	–	**–**
Share premium	2,723	2,723	**1,342**

	Number of shares	Number of shares	**Number of shares**
The following table illustrates the movement within the number of shares issued:			
Shares in issue at beginning of year	557,031,819	557,031,819	**557,031,819**
Shares bought back and cancelled	–	–	**(12,086,920)**
Shares in issue at end of year	557,031,819	557,031,819	**544,944,899**

The class A and B ordinary shares rank equally with the ordinary shares in respect of rights to dividends but differ in respect of the right to appoint directors. Full details of the voting rights of ordinary, class A and class B shares are documented in the Articles of Association of Telkom.

The unissued shares are under the control of the Directors of Telkom until the next Annual General Meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 20% of the current issued share capital. This authority expires at the next annual general meeting.

Share buy-back

During the year Telkom bought back 12,086,920 ordinary shares at a total consideration of R1,502 million. This reduced the share capital by R121 million and the share premium by R1,381 million.

The shares bought back have been cancelled from the issued share capital by the Registrar of Companies.

	2004 Rm	2005 Rm	**2006 Rm**
Treasury shares	(238)	(1,812)	**(1,809)**

12,687,521 (2005: 12,717,190; 2004: 3,185,736) and 10,849,058 (2005:10,849,058; 2004: Nil) ordinary shares in Telkom, with a fair value of R2,038 million (2005: R1,366 million; 2004: R251 million) and R1,743 million (2005: R1,166 million; 2004: RNil) are currently held as treasury shares by its subsidiaries Rossal No 65 (Proprietary) Limited and Acajou Investments (Proprietary) Limited, respectively.

The shares held by Rossal no 65 (Proprietary) Limited are reserved for

issue in terms of the Telkom Conditional Share Plan (Refer to note 28).

	2004 Rm	2005 Rm	**2006 Rm**
20. Share-based compensation reserve	–	68	**151**
This reserve represents the cumulative fair value of the equity-settled share-based payment transactions recognised in employee expenses during the vesting period of the equity instruments granted to employees in terms of the Telkom Conditional Share Plan (Refer to note 28).			
The following table illustrates the movement within the Share-based compensation reserve:			
Balance at beginning of year		–	**68**
Employee cost		68	**120**
Accelerated vesting of shares		–	**(37)**
Balance at end of year	–	68	**151**
21. Non-distributable reserves	91	361	**1,136**
Balance at beginning of year	(15)	91	**361**
Movement during year	106	270	**775**
Foreign currency translation reserve (net of tax of RNil; 2005: RNil; 2004: R5 million)	(92)	13	**59**
Fair value adjustment on investments	9	(22)	**–**
Life fund reserve (Cell Captive)	189	279	**716**
The balance comprises:	91	361	**1,136**
Foreign currency translation reserve	(168)	(155)	**(96)**
Fair value adjustment on investments	22	–	**–**
Cell Captive reserve	237	516	**1,232**

The Group has two consolidated cell captives, one used as an investment to fund Telkom's post-retirement medical aid liability and the other is for Vodacom's short-term insurance obligation in respect of handsets.

In terms of the Short-term Insurance Act, 1998, the Vodacom cell captive partner, Nova Risk Partners Limited is required to raise a contingency reserve equal to 10% of premiums written less approved reinsurance (as defined in the Act). This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.

The earnings from the cell captives are recognised in the income statement and then transferred to non-distributable reserves.

Gains and losses from changes in fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed.

	2004 Rm	2005 Rm	**2006 Rm**
22. Retained earnings	13,482	19,231	**22,896**
Opening balance as previously stated	10,392	13,482	**19,231**
Change in accounting policy – Connection revenue	(809)	–	**–**
Opening balance as restated	9,583	13,482	**19,231**
Movement during year	3,899	5,749	**3,665**
Net profit for the year	4,589	6,751	**9,182**
Transfer to non-distributable reserves	(189)	(279)	**(716)**
Dividend declared	(501)	(606)	**(4,801)**
Change in shareholding in Vodacom Congo (RDC) s.p.r.l.	–	(117)	**–**
The balance comprises:	13,482	19,231	**22,896**
Company	9,366	15,033	**18,534**
Joint venture	3,918	4,029	**4,285**
Subsidiaries	198	169	**77**

	2004 Rm	2005 Rm	**2006 Rm**
23. Minority interest	200	220	**301**
Opening balance	194	200	**220**
Movement during the year	6	20	**81**
Reconciliation	200	220	**301**
Balance at beginning of year	194	200	**220**
Share of earnings	69	83	**139**
Acquisition of subsidiary	–	5	**27**
Foreign currency translation reserves	(9)	(1)	**(7)**
Dividend declared	(54)	(67)	**(78)**
24. Interest-bearing debt			
Long-term interest-bearing debt	12,703	9,504	**7,655**
Total interest-bearing debt	16,754	14,003	**11,123**
Gross interest-bearing debt (Refer to note 25)	20,151	16,914	**13,686**
Discount on debt instruments issued	(3,397)	(2,911)	**(2,563)**
Less: Current portion of interest-bearing debt	(4,051)	(4,499)	**(3,468)**
Local debt	(3,628)	(264)	**(2,642)**
Locally registered Telkom debt instruments	(2,286)	–	**(2,211)**
Repurchase agreements	(27)	–	**–**
Commercial paper bills	(1,313)	(262)	**(429)**
Short-term interest free loans	(2)	(2)	**(2)**
Foreign debt	(408)	(4,210)	**(786)**
Finance leases	(15)	(25)	**(40)**

	2004 Rm	2005 Rm	**2006 Rm**
24. Interest-bearing debt (continued)			
Total interest-bearing debt is made up as follows:	16,754	14,003	**11,123**
(a) Local debt	10,983	7,790	**8,938**
Locally registered Telkom debt instruments	9,412	7,526	**8,507**
Name, maturity, rate p.a., nominal value			
TK01, 2008, 10%, R4,689 million (2005: R4,658 million; 2004: R4,609 million)	3,812	4,018	**4,230**
TL08, 2004, 13%, RNil (2005: RNil; 2004: R2,299 million)	2,286	–	**–**
TL06, 2006, 10.5%, R2,100 million (2005: R1,500 million; 2004: R1,455 million)	1,440	1,492	**2,103**
TL20, 2020, 6%, R2,500 million (2005: R2,500 million; 2004: R2,500 million)	1,155	1,186	**1,214**
PP02, 2010, 0%, R430 million (2005: R430 million; 2004: R430 million)	174	200	**230**
PP03, 2010, 0%, R1,350 million (2005: R1,350 million; 2004: R1,350 million)	545	630	**730**

Local bonds

The local Telkom bonds are unsecured, but contain a number of restrictive covenants, which limit Telkom's ability to create encumbrances on revenues or assets, and to secure any indebtedness without securing the outstanding bonds equally and rateably with such indebtedness. The TL20 loan contains restrictive financial covenants which, if not met, could result in the early redemption of the loan.

Telkom is a buyer or seller of last resort in the Telkom bond TK01. To economically hedge the resultant exposure Telkom sells or buys government bonds which are included in bills of exchange. The objective of the hedging relationship is to eliminate price risk whereby value changes on the TK01 transactions are in total offset by value changes in the government stock.

	2004 Rm	2005 Rm	**2006 Rm**
Repurchase agreements	27	–	**–**
Commercial paper bills	1,542	262	**429**
Maturity, rate p.a., nominal value 2006, 7% (2005: 14.06%; 2004: 13.5% to 15.13%), R430 million (2005: R263 million; 2004: R1,708 million).			
Interest free long-term loans Vodacom Lesotho (Proprietary) Limited	2	2	**2**

The minority shareholder's loan is uncollateralised and no repayment terms have been determined.

	2004 Rm	2005 Rm	**2006 Rm**
(b) Foreign debt	4,574	5,004	**913**
Name, maturity, rate p.a., nominal value Euro: 2006 – 2025, 0.10% – 6.81% (2002 – 2005, 0.10% – 7.13%), €11 million (2005: €512 million; 2004: €512 million)	3,988	4,135	**85**
Planetel Communications Limited	18	19	**21**

The shareholder loan of USD8 million (2005: USD8 million; 2004: USD8 million) (Group share: USD4 million, 2005: USD4 million; 2004: USD4 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002, and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan was remeasured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on remeasurement was included in equity.

	2004 Rm	2005 Rm	**2006 Rm**
24. Interest-bearing debt (continued)			
(b) Foreign debt (continued)			
Caspian Construction Company Limited	21	23	**25**
The shareholder loan of USD10 million; (2005: USD10 million; 2004: USD10 million) (Group share: USD5 million; 2005: USD5 million; 2004: USD5 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002, and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan was re-measured at amortised cost at an effective interest rate of LIBOR plus 5%. The gain on re-measurement was included in equity.			
Extended credit facility of Vodacom Congo (RDC) s.p.r.l.	155	–	**–**
Vodacom Congo (RDC) s.p.r.l's extended credit facility amounted to €39 million (Group share:€20 million) at March 31, 2004, which was partially collateralised by guarantees and a cash deposit, and bore interest at a rate between EURIBOR plus 1.50% and EURIBOR plus 1.75%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
Revolving credit facility of Vodacom Congo (RDC) s.p.r.l.	156	–	**–**
(a) Vodacom's share of the short-term revolving credit facility provided by ABSA amounted to USD16 million (Group share: USD8 million) at March 31, 2004. The credit facility was collateralised by guarantees provided by the Group, which bore interest at an effective interest rate of LIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
(b) Vodacom's share of the short-term Euro revolving credit facility provided by Standard Finance (Isle of Man) Limited amounted to € 12 million (Group share:€ 6 million) at March 31, 2004. The credit facility was collateralised by guarantees provided by Vodacom and bore interest at an effective interest rate of EURIBOR plus 1.5%.			
(c) Vodacom's share of the short-term Dollar revolving credit facility provided by Standard Finance (Isle of Man) Limited amounts to USD19 million (Group share: USD10 million). At March 31, 2004, the credit facility was collateralised by guarantees provided by Vodacom and bore interest at an effective interest rate of LIBOR plus 1.5%.			
Loan to Vodacom International Limited	–	564	**557**
The loan provided by Standard Bank London Limited and RMB International (Dublin) Limited that amounts to USD180 million (2005: USD180 million (Group share USD90 million; 2005: USD90 million)) is collateralised by guarantees provided by the Vodacom Group. The loan is repayable on July 19, 2006 and bears interest at an effective interest rate of LIBOR plus 0.6%.			

	2004 Rm	2005 Rm	2006 Rm
24. Interest-bearing debt (continued)			
(b) Foreign debt (continued)			
Project finance funding for Vodacom Tanzania Limited	174	143	**92**
Vodacom Congo (RDC) s.p.r.l.	2	4	**19**
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	60	116	**114**
(c) Finance leases	1,197	1,209	**1,272**

24. Interest-bearing debt (continued)

(b) Foreign debt (continued)

Project finance funding for Vodacom Tanzania Limited

The drawn down portions of the project finance funding from external parties include the following:

(a) Netherlands Development Finance Company USD8 million (Group share: USD4 million) (2005: USD10 million; Group share: USD5 million; 2004: USD11 million; Group share: USD6 million)

(b) Deutsche Investitions – Und Entwicklungsgesellschaft mbH €8 million (Group share: €4 million) (2005: €10 million; Group share: €5 million; 2004: €12 million; Group share: €6 million)

(c) Standard Corporate and Merchant Bank USD8 million (Group share: USD4 million) (2005: USD12 million, Group share: USD6 million; 2004: USD16 million; Group share: USD8 million)

(d) Barclays Bank (Local Syndicate Tanzania) TSH5,704 million (Group share: TSH2,852 million) (2005: TSH10,969 million; Group share: TSH5,485 million; 2004: TSH15,356 million; Group share: TSH7,678 million)

These are collateralised by a charge over 100% of the shares, the license with a carrying value of R6 million and Vodacom Tanzania Limited's tangible assets with a carrying value of R896 million and intangible assets with a carrying value of R32 million. The loans bear interest based upon the foreign currency denomination of the project financing between 6% and 14.5% per annum and will be fully repaid by March 2008. The full amount of R92 million has been classified as current liabilities due to the Group not having an unconditional right to defer its settlement for at least twelve months after the balance sheet date.

Vodacom Congo (RDC) s.p.r.l.

Vodacom's share of the short-term facility amounts to USD6 million (2005: USD1 million; 2004: USD0.5 million) (Group share: USD3 million; 2005: USD 0.5 million; 2004: USD0.25 million). USD1 million (Group share: USD0.5 million) of these facilities bears interest at 18% per annum with no fixed repayment terms. USD5 million (Group share: USD2.5 million) of these facilities is repayable on June 15, 2006 and bears interest at LIBOR plus 6% per annum.

Preference shares issued by Vodacom Congo (RDC) s.p.r.l. The preference shares of USD37 million (2005: USD37 million; 2004: USD19 million) (Group share: USD19 million; 2005:USD19 million; 2004: USD10 million) bear interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.

(c) Finance leases

The finance leases are secured by buildings and office equipment with a book value of R618 million (2005: R618 million; 2004: R648 million) (Refer to note 10). These amounts are repayable within periods ranging from 1 to 13 years. Interest rates vary between 11.3% and 37.7%.

	2004 Rm	2005 Rm	**2006 Rm**
24. Interest-bearing debt (continued)			
Included in long-term and short-term debt is:			
Debt guaranteed by the South African Government	3,906	4,113	**4,315**

A major portion of the guaranteed debt relates to the TK01 debt instrument.

Telkom may issue or reissue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. The borrowing powers of Telkom are set out in note 18.

Repurchase agreements

The Group manages a portfolio of repurchase agreements in the South African capital and money markets with a view to financing short-term liquidity gaps. Interest paid by the Group is based on the current market related yield.

2004

Maturity period	Yield	2004 Rm	2005 Rm	**2006 Rm**
7 days	9.3%	27	–	**–**

Due to the short-term nature of these transactions and the fact that the transactions are initiated based on market related interest rates, the carrying value approximates the fair value.

Collateral in the form of publicly tradable bonds has been delivered in respect of the above transactions.

The terms and conditions of these transactions are governed by signed ISMA agreements with all counter parties and the regulations of the BESA. The fair value has been derived at with reference to BESA quoted prices.

25. Repayment of gross interest-bearing debt

Year repayable	2004 Total Rm	2005 Total Rm	**2006 Foreign Rm**	**2006 Local Rm**	**2006 Total Rm**
2004/2005	4,197	–	**–**	**–**	**–**
2005/2006	4,227	4,499	**–**	**–**	**–**
2006/2007	1,553	2,162	**786**	**2,685**	**3,471**
2007/2008	4,710	4,755	**–**	**4,649**	**4,649**
2008/2009	135	97	**–**	**112**	**112**
2009/2010	49	92	**–**	**50**	**50**
2010/2011	1,873	1,874	**12**	**1,872**	**1,884**
Thereafter	3,407	3,435	**115**	**3,405**	**3,520**
	20,151	16,914	**913**	**12,773**	**13,686**

The Euro Bond with a nominal value of € 500 million at March 31, 2005 was redeemed on April 11, 2005. The facility was refinanced with commercial paper bills ranging in maturities from one month to one year, with yields of between 7.0% and 7.5%, and an additional R600 million (nominal amount) of the existing TL06 bond.

Commercial paper bills with a nominal value of R2,720 million were redeemed in the current financial year. Of these, R262 million was outstanding at March 31, 2005. These redemptions were financed with cash flow from operations.

Repayment/refinancing of current portion of interest-bearing debt

The repayment/refinancing of R3,468 million of the current portion of interest-bearing debt will depend on the market circumstances at the time of repayment. Management believes that sufficient funding facilities will be available at the date of repayment/refinancing.

The Bond Exchange of South Africa granted a listing effective from April 1, 2005 on the TL20 Bonds.

	2004 Rm	2005 Rm	**2006** **Rm**
26. Provisions	2,438	2,460	**2,677**
Employee related	3,670	3,772	**4,232**
Annual leave	401	337	**356**
Balance at beginning of year	417	401	**337**
Charged to employee expenses	162	74	**88**
Leave utilised or paid	(178)	(138)	**(69)**
Post-retirement medical aid (Refer to note 28)	2,420	2,430	**2,607**
Balance at beginning of year	2,289	2,420	**2,430**
Interest cost	249	249	**249**
Current service cost	24	27	**48**
Actuarial loss	–	–	**63**
Settlement and curtailment gain	(1)	(94)	**(1)**
Termination settlement	(9)	(13)	**(29)**
Contributions	(132)	(159)	**(153)**
Retirement and pension fund deficits (Refer to note 28)	–	–	**–**
Balance at beginning of year	474	–	**–**
Repayment of the deficit	(518)	–	**–**
Interest cost	44	–	**–**
Telephone rebates (Refer to note 28)	164	179	**198**
Balance at beginning of year	162	164	**179**
Interest cost	19	16	**16**
Current service cost	4	2	**3**
Actuarial gain	(21)	–	**–**
Curtailment gain	–	(3)	**–**
Bonus	685	826	**1,071**
Balance at beginning of year	608	685	**826**
Charged to employee expenses	546	732	**965**
Payment	(469)	(591)	**(720)**
Non-employee related	97	116	**105**
Supplier dispute (Refer to note 36)	–	–	**–**
Balance at beginning of year	356	–	**–**
Released to selling, general and administrative expenses	(356)	–	**–**
Warranty provision	17	14	**16**
Balance at the beginning of year	5	17	**14**
Charged to selling, general and administrative expenses	14	6	**20**
Provision utilised	(2)	(9)	**(18)**
Other	80	102	**89**
Less: Short-term provisions	(1,329)	(1,428)	**(1,660)**
Annual leave	(401)	(337)	**(356)**
Post-retirement medical aid	(158)	(171)	**(159)**
Telephone rebate	(12)	(16)	**(17)**
Bonus	(685)	(826)	**(1,071)**
Warranty provision	(17)	(14)	**(16)**
Other	(56)	(64)	**(41)**

26. Provisions (continued)

Annual leave

In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 25 days (2005: 25 days; 2004: 28 days) which must be taken within an 18 month leave cycle for Telkom, and a cap of 45 days for Vodacom. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The Telkom bonus scheme consists of performance bonuses which are dependent on achievement of certain financial and non-financial targets. The bonus is payable to all qualifying employees annually after the Company's results have been made public.

Vodacom's bonus provision consists of a performance bonus based on the achievement of the predetermined financial targets payable to all levels of staff.

Deferred bonus incentive

Vodacom's deferred bonus incentive provision represents the present value of the expected future cash outflows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

The value of the bonus entitlements are determined based upon the audited consolidated financial statements of the Vodacom Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision is utilised when eligible employees receive the value of vested entitlements.

Warranty provision

The warranty provision in Vodacom covers manufacturing defects in the second year of warranty on handsets sold to customers. The estimate is based on claims notified and past experience.

Other

Included in other provisions is an amount provided for asset retirement obligations.

Other provisions also include provisions for losses as a result of onerous contracts, advertising co-operation and various other smaller provisions. The provision for onerous contracts represents the Groups's liability in respect of onerous lease contracts related to certain buildings. The provision is discounted for the respective periods of the lease contracts and is net of the the fair value of sublease rentals. The provision for advertising co-operation represents the funds received from handset suppliers for expenditure not yet spent by the Group or external service providers.

	2004 Rm	2005 Rm	**2006** **Rm**
27. Trade and other payables	6,007	6,782	**6,103**
Trade payables	3,435	4,233	**4,371**
Finance cost accrued	463	385	**141**
Accruals	2,109	2,164	**1,591**

Accruals mainly represent amounts payable for goods received, amounts raised for anticipated obligations on indirect taxes, net Value-added Tax obligations and licence fees. Also included is an amount for workforce reduction expenses of R2 million (2005: R606 million; 2004: R1,633 million) (Refer to note 5.1).

28. Employee benefits

The Group provides benefits for all its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund, and the Vodacom Group Pension Fund. Membership of one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement funds are performed at intervals not exceeding three years.

At March 31, 2006, the Group employed 31,458 employees (2005: 31,790; 2004: 37,543). As at March 31, 2005, 2,745 (2004: 312) of these employees were affected by the workforce reduction. In concluding the workforce reduction initiative, an additional 245 employees have left Telkom during the current financial year.

28. Employee benefits (continued)

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991. All employees who were members of the Government Service Pension Fund and Temporary Employees Pension Fund were transferred to a newly established Telkom Pension fund, as were the deficits that existed in the aforementioned State Funds. Legislation also made provision that Telkom would guarantee the financial obligations of the Telkom Pension Fund. The South African Government guaranteed the actuarially valued deficit of the Telkom Pension Fund as at September 30, 1991, plus interest as determined by the State Actuary. The deficit related to the transferred members was fully repaid during 2004.

The latest actuarial valuation performed at March 31, 2006 indicates that the pension fund is in a surplus funding position of R80 million after unrecognised losses. The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS19 (revised).

The last statutory valuation of the Telkom Pension Fund performed in March 2005, indicated a statutory deficit. The current contributions are based on that valuation. Management expects to complete the next statutory valuation in July 2006.

With effect from July 1, 1995, the Telkom Pension Fund was closed to new members. The funded status of the Telkom Pension Fund is disclosed below.

	2004 Rm	2005 Rm	**2006 Rm**
Telkom Pension Fund			
The net periodic pension costs include the following components:			
Interest and service cost on projected benefit obligations	22	22	**22**
Expected return on plan asset	(32)	(22)	**(24)**
Amortisation of unrecognised net actuarial loss	2	5	**78**
Net periodic pension (benefit)/expense recognised	(8)	5	**76**
Pension contributions	22	12	**22**
The status of the pension plan is as follows			
Benefit obligation:			
At beginning of year	162	190	**186**
Interest and service cost	22	22	**22**
Employee contributions	3	3	**4**
Benefits paid and net cash flow	(7)	–	**(20)**
Actuarial loss/(gain)	10	(29)	**89**
Benefit obligation at end of year	190	186	**281**
Plan assets at fair value:			
At beginning of year	211	219	**231**
Expected return on plan assets	32	22	**24**
Net cash flows	17	14	**6**
Actuarial loss	(41)	(24)	**(18)**
Plan assets at end of year	219	231	**243**
Present value of funded obligation	190	186	**281**
Fair value of plan assets	(219)	(231)	**(243)**
Funded status	(29)	(45)	**38**
Unrecognised net actuarial loss	(100)	(89)	**(118)**
Unrecognised/recognised net asset	(129)	(134)	**(80)**
Expected return on plan assets	31	22	**24**
Actuarial loss on plan assets	(41)	(24)	**(18)**
Actual (loss)/return on plan assets	(10)	(2)	**6**

	2004	2005	2006
28. Employee benefits (continued)			
The Telkom Pension Fund (continued)			
Principal actuarial assumptions were as follows:			
Discount rate (%)	10.0	9.0	**7.5**
Yield on government bonds (%)	9.0	9.0	**7.5**
Long-term return on equities (%)	12.0	12.0	**10.5**
Long-term return on cash (%)	7.0	7.0	**5.5**
Administration fee allowance (%)	1.0	1.0	**1.0**
Expected return on plan assets (%)	10.0	10.0	**9.5**
Salary inflation rate (%)	7.0	6.0	**6.0**
Pension increase allowance (%)	3.8	3.6	**2.9**
The assumed rates of mortality are determined by reference to the SA85/90 Ultimate mortality table, as published by the Actuarial Society of South Africa, for all categories of members.			
Funding level per statutory actuarial valuation (%)	94.0	98.5	**99.8**
The number of employees registered under the Telkom Pension Fund	339	295	**255**
Actuarial calculations/valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.			
The fund portfolio consists of the following:			
Equities (%)	60	62	**84**
Bonds (%)	30	21	**9**
Cash (%)	10	17	**7**
The total expected contributions payable to the pension fund for the next financial year is R10 million.			

Expected future benefit payments are as follows:	Rm
2007	**10**
2008	**10**
2009	**11**
2010	**13**
2011	**14**
>5 years	**226**
Total	**284**

The Telkom Retirement Fund

The Telkom Retirement Fund was established on July 1, 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after July 1, 1995 were transferred to the Telkom Retirement Fund. At the same time the proportionate share of the deficit relating to the transferring employees and pensioners was transferred to the Telkom Retirement Fund. Upon transfer the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to July 1, 1995 further transfers of existing employees occurred.

The Telkom Retirement Fund is a defined contribution fund with regards to in-service members. On retirement, an employee is transferred from the defined contribution plan to a defined benefit plan. Telkom, as a guarantor is contingently liable for any deficit in the Telkom Retirement Fund. Moreover, all of the assets in the Fund, including any potential excess belong to the participants of the scheme. The Company is unable to benefit from the excess.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund. The latest actuarial calculation performed at March 31, 2006 indicates that the retirement fund is in a surplus funding position of R854 million after unrecognised losses.

28. Employee benefits (continued)

The Telkom Retirement Fund (continued)

The Telkom Retirement Fund is governed by the Pension Funds Act, Act No. 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. If therefore the present value of the funded obligation were to exceed the fair value of the plan assets, Telkom would be required to fund the deficit.

The information presented below is intended only to comply with the disclosure requirements of IAS19 (revised) and not to suggest that the Company has a potential asset with regards to this Fund.

The funded status of the Telkom Retirement Fund is disclosed below:

	2004 Rm	2005 Rm	**2006 Rm**
Telkom Retirement Fund			
The net periodic retirement costs include the following components:			
Interest and service cost on projected benefit obligations	279	301	**346**
Expected return on plan assets	(421)	(338)	**(430)**
Amortisation of unrecognised net actuarial loss	–	29	**–**
Net periodic pension benefit recognised	(142)	(8)	**(84)**
Retirement fund contributions	423	429	**383**
Benefit obligation:			
At beginning of year	2,679	3,162	**4,020**
Interest and service cost	279	301	**346**
Benefits paid	(307)	(329)	**(377)**
Actuarial loss	511	886	**388**
Benefit obligation at end of year	3,162	4,020	**4,377**
Plan assets at fair value:			
At beginning of year	3,106	3,540	**4,477**
Expected return on plan assets	421	338	**431**
Benefits paid	(305)	(329)	**(377)**
Actuarial gain	318	928	**1,442**
Plan assets at end of year	3,540	4,477	**5,973**
Present value of funded obligation	3,162	4,020	**4,377**
Fair value of plan assets	(3,540)	(4,477)	**(5,973)**
Funded status	(378)	(457)	**(1,596)**
Unrecognised net actuarial (loss)/gain	(382)	(312)	**742**
Unrecognised net asset	(760)	(769)	**(854)**
Expected return on plan assets	421	338	**430**
Actuarial gain on plan assets	318	928	**1,442**
Actual return on plan assets	739	1,266	**1,872**
Included in fair value of plan assets is:			
Office buildings occupied by Telkom	127	221	**274**
Telkom bonds	46	39	**56**
Telkom shares	121	187	**287**

The Telkom Retirement Fund invests its funds in South Africa and internationally. Ten fund managers invest in South Africa and four of these managers specialise in trades with bonds on behalf of the Retirement Fund. The international investment portfolio consists of global equity and hedged funds.

	2004	2005	2006
28. Employee benefits (continued)			
The Telkom Retirement Fund (continued)			
Principal actuarial assumptions were as follows:			
Discount rate (%)	10.0	9.0	**7.5**
Yield on government bonds (%)	9.0	9.0	**7.5**
Long-term return on equities (%)	12.0	12.0	**10.5**
Long-term return on cash (%)	7.0	7.0	**5.5**
Administration fee allowance (%)	1.0	1.0	**1.0**
Expected return on plan assets (%)	10.0	10.0	**8.5**
Salary inflation rate (%)	7.0	6.0	**6.0**
Pension increase allowance (%)	3.8	3.6	**2.9**
The assumed rates of mortality are determined by reference to the PA(90) table, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year (75% male and 25% female) together with improvements of 0.75% per annum based on an average fund pension.			
Funding level per statutory actuarial valuation (%)	84	100	**100**
The number of pensioners registered under the Telkom Retirement Fund	14,268	14,087	**14,323**
The number of in-service employees registered under the Telkom Retirement Fund	32,017	28,677	**25,320**
The fund portfolio consists of the following:			
Equities (%)	56	57	**72**
Property (%)	4	5	**4**
Bonds (%)	30	21	**21**
Cash (%)	10	17	**3**
The total expected contributions payable to the retirement fund for the next financial year is R670 million.			

Expected future benefit payments are as follows:	Rm
2007	**646**
2008	**687**
2009	**730**
2010	**776**
2011	**826**
>5 years	**15,899**
Total	**19,564**

Vodacom Group Pension Fund

All eligible employees of the Vodacom Group are members of the Vodacom Group Pension Fund, a defined contribution pension scheme. Certain executive employees of Vodacom are also members of the Vodacom Executive Provident Fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. The Group's share of the current contributions to the Pension Fund amounted to R38 million (2005: R35 million; 2004: R33 million). The Group's share of the current contributions to the Provident Fund amounted to R6 million (2005: R2 million; 2004: R3 million). The Vodacom employees at March 31, 2006 were 5,271 (2005: 4,991; 2004: 4,609). The South African funds are governed by the Pension Funds Act No. 24 of 1956.

28. Employee benefits (continued)

Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 5.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 26. The Company has terminated future post-retirement medical benefits in respect of employees joining after July 1, 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 1994 ('Post-94'); and the in-service members. The Post-94 and the in-service members' liability is subject to a Rand cap, which increases annually with the average salary increase.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid. The most recent actuarial valuation of the benefit was performed as at March 31, 2006.

Telkom has allocated certain investments to fund this liability as set out in note 12. During the current year, Telkom realised a portion of the investment in the sinking fund and invested it in an annuity policy within the cell captive. These investments do not qualify as plan assets.

The status of the medical aid liability is disclosed below:

	2004 Rm	2005 Rm	**2006 Rm**
Medical aid			
Present value of unfunded obligation	2,378	3,079	**3,904**
Unrecognised net actuarial gain/(loss)*	42	(649)	**(1,297)**
Liability as disclosed in the balance sheet (Refer to note 26)	2,420	2,430	**2,607**

** The prior year net actuarial loss has been corrected by R492 million as a result of an actuarial calculation error that occurred in 2005. This has not had an effect on previously reported results.*

Principal actuarial assumptions were as follows:	2004	2005	**2006**
Discount rate (%)	10.0	9.0	**7.5**
Salary inflation rate (%)	7.0	6.0	**6.0**
Medical inflation rate (%)	8.0	7.0	**6.5**
Withdrawal rate (%)	15.0	30.0	**30.0**

The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.

	2004	2005	**2006**
Actual retirement age	65	65	**65**
Average retirement age	63	60	**60**
Number of members	23,522	18,890	**17,872**
Number of pensioners	8,233	8,845	**8,665**

The liability is extremely sensitive to changes in the underlying assumptions. The impact of a one percentage point movement in the medical cost and salary inflation rate is as follows:

	2006
Impact on total service and interest cost components for one percent increase	**59**
Impact on post-retirement benefit obligation for one percent increase	**563**
Impact on total service and interest cost components for one percent decrease	**(54)**
Impact on post-retirement benefit obligation for one percent decrease	**(497)**

	2004 Rm	2005 Rm	2006 Rm

28. Employee benefits (continued)

Telephone rebates

Telkom provides telephone rebates to its pensioners. The most recent actuarial valuation was performed in March 2006. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.
The status of the telephone rebate liability is disclosed below:

	2004 Rm	2005 Rm	2006 Rm
Present value of unfunded obligation	164	177	**251**
Unrecognised net actuarial gain/(loss)	–	2	**(53)**
Liability as disclosed in balance sheet (Refer to note 26)	164	179	**198**
Principal actuarial assumptions were as follows:			
Discount rate (%)	10.0	9.0	**7.5**
Rebate inflation rate (%)	5.0	0.0	**0.0**

The assumed rates of mortality are determined by reference to the standard published mortality table PA(90), as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.

	2004	2005	2006
Actual retirement age	65	65	**65**
Average retirement age	63	60	**60**
Number of members	21,867	18,834	**19,164**
Number of pensioners	11,686	10,571	**11,148**

The liability is extremely sensitive to changes in the underlying assumptions. The impact of a 0.5% increase in the rebate inflation rate is an increase of R14 million in the liability.

Telkom Conditional Share Plan

Telkom's shareholders approved the Telkom Conditional Share Plan at the January 2004 Annual General Meeting. The scheme covers both operational and management employees and is aimed at giving shares to Telkom employees, at a RNil exercise price, at the end of the vesting period. The vesting period for the operational employees share award is 0% in year one, 33% in each of the 3 years thereafter, while the management share award vests fully after 3 years. Although the number of shares awarded to employees will be communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met.

The Telkom Board approved the award of 3.2 million shares in 2004, the grant of which occurred in August 2004. The Telkom Board approved the second allocation of shares to employees as at June 23, 2005. A total of 2,024,555 shares were granted. No consideration is payable on the shares issued to employees, but performance criteria will need to be met in order for the shares to be granted and to vest. The ultimate number of shares that will vest may differ based on certain individual and Telkom performance conditions being met. The related compensation expense is recognised over the vesting period of the shares granted, commencing on the grant date.

The weighted average remaining vesting period for the shares outstanding as at March 31, 2006 is 1.75 years (2005: 2.25 years).

The following table illustrates the movement of the maximum number of shares that will vest to employees for the August 2004 grant:

	2004	2005	2006
Outstanding at beginning of year	–	–	**2,943,124**
Granted during the year	–	3,046,242	**90**
Forfeited during the year	–	(103,118)	**(67,573)**
Settled during the year	–	–	**(444,093)**
Vested during the year	–	–	**(17,341)**
Outstanding at end of the year	–	2,943,124	**2,414,207**

	2004	2005	2006

28. Employee benefits (continued)

Telkom Conditional Share Plan (continued)

The following table illustrates the movement of the maximum number of shares that will vest to employees for the June 2005 grant:

	2004	2005	2006
Outstanding at beginning of year	–	–	**–**
Granted during the year	–	–	**2,024,465**
Forfeited during the year	–	–	**(62,354)**
Settled during the year	–	–	**(19,096)**
Vested during the year	–	–	**(12,328)**
Outstanding at end of year	–	–	**1,930,687**

In the terms of the settlement agreement between Telkom and Mr Sizwe Nxasana, the former CEO, the Telkom Board approved the acceleration of the vesting of 29,669 shares that had been granted to Mr Nxasana, with the result that the shares vested on August 31, 2005. On September 15, 2005 Mr Nxasana exercised his right to the shares and the shares were transferred from the treasury share reserve to Mr Nxasana.

The fair value of the shares granted on August 8, 2004, has been calculated by an actuary using a market share price of R77.50 at grant date, and adjusted for a 2,6% dividend yield. The fair value of the shares granted on June 23, 2005, has been calculated by an actuary using a market share price of R111.00 at grant date, and adjusted for a 3.6% dividend yield.

The principal assumptions used in calculating the expected number of shares that will vest are as follows:

	2004	2005	2006
Employee turnover (%)	–	5	**5**
Meeting specified performance criteria (%)	–	100	**100**

At March 31, 2006 the estimated total compensation expense to be recognised over the vesting period was R381 million (2005: R192 million), of which R127 million (2005: R68 million) was recognised in employee expenses for the year.

Long-term incentive provision

The long-term incentive provision represents the present value of the expected future cash outflows to eligible employees that qualify. The amount of the liability is based on an actuarial valuation. The provision is utilised when eligible employees receive the value of vested benefits.

The Group exposure is 50% of the following items:	2004	2005	**2006 Rm**
Net liability at beginning of year	–	–	**–**
Interest cost	–	–	**7**
Current service cost	–	–	**9**
Past service and interest costs	–	–	**76**
Actuarial loss	–	–	**47**
Net cost	–	–	**139**
Total benefit payments	–	–	**(17)**
Net liability at end of year	–	–	**122**

	2002 Rm	2003 Rm	2004 Rm	2005 Rm	**2006 Rm**
28. Employee benefits (continued)					
The amounts for the current and previous four years are as follows:					
Telkom Pension Fund					
Defined benefit obligation	(167)	(162)	(190)	(186)	**(281)**
Plan assets	150	211	219	231	**243**
(Deficit)/surplus	(17)	49	29	45	**(38)**
Unrecognised actuarial loss	86	50	100	89	**118**
Unrecognised/recognised net asset	69	99	129	134	**80**
Telkom Retirement Fund					
Defined benefit obligation	(3,055)	(2,679)	(3,162)	(4,020)	**(4,377)**
Plan assets	3,805	3,106	3,540	4,477	**5,973**
Surplus	750	427	378	457	**1,596**
Unrecognised actuarial (gain)/loss	(460)	190	382	312	**(742)**
Unrecognised net asset	290	617	760	769	**854**
Medical benefits					
Defined benefit obligation	(1,893)	(2,162)	(2,378)	(3,079)	**(3,904)**
Unrecognised actuarial (gain)/loss	(267)	(127)	(42)	649	**1,297**
Liability	(2,160)	(2,289)	(2,420)	(2,430)	**(2,607)**
Telephone rebates					
Defined benefit obligation	(146)	(162)	(164)	(177)	**(251)**
Unrecognised actuarial (gain)/loss	–	–	–	(2)	**53**
Liability	(146)	(162)	(164)	(179)	**(198)**

	2004 Rm	2005 Rm	**2006 Rm**
29. Reconciliation of profit for the year to cash generated from operations	16,302	18,622	**19,724**
Profit for the year	4,658	6,834	**9,321**
Finance charges	3,264	1,695	**1,233**
Taxation	1,738	3,082	**4,520**
Investment income	(322)	(350)	**(397)**
Interest received from debtors	(156)	(127)	**(136)**
Non-cash items	6,517	6,329	**6,206**
Depreciation, amortisation, impairment and write-offs	7,248	6,288	**5,876**
(Decrease)/increase in provisions	(687)	135	**554**
Profit on disposal of property, plant and equipment	(19)	(30)	**(79)**
Profit on disposal of investment	(25)	(64)	**(163)**
Loss on disposal of property, plant and equipment	–	–	**18**
Decrease/(increase) in working capital	603	1,159	**(1,023)**
Inventories	115	(127)	**(198)**
Accounts receivable	(275)	441	**(667)**
Accounts payable	763	845	**(158)**

	2004 Rm	2005 Rm	**2006 Rm**
30. Finance charges paid	(1,787)	(1,272)	**(1,316)**
Finance charges per income statement	(3,264)	(1,695)	**(1,233)**
Non-cash items	1,477	423	**(83)**
Movements in interest accruals	111	(84)	**(276)**
Net discount amortised	581	482	**423**
Fair value adjustment	1,130	(83)	**(302)**
Unrealised foreign exchange (loss)/gains	(345)	108	**72**
31. Taxation paid	(562)	(1,487)	**(4,550)**
Net asset/(liability) at beginning of year	99	(460)	**(1,711)**
Taxation	(1,258)	(2,976)	**(4,965)**
Secondary Tax on Companies	151	238	**585**
Business combination	(14)	–	**(8)**
Tax liability at end of year	460	1,711	**1,549**
32. Dividend paid	(548)	(629)	**(4,884)**
Dividends payable at beginning of year	–	(7)	**(7)**
Dividends declared	(501)	(606)	**(4,801)**
Dividends paid to minority shareholders	(54)	(23)	**(80)**
Dividends payable at end of year	7	7	**4**

33. Purchase of subsidiaries, joint ventures and minority shareholders' interests

Acquisitions

The following acquisitions were made:

By Telkom

	2004 Rm	2005 Rm	**2006 Rm**
During the 2004 financial year, a 100% shareholding in Rossal No 65 (Proprietary) Limited for R100. This company will be utilised to administer, on behalf of Telkom, the Telkom Conditional Share Plan.	–		
During the 2005 financial year, a 100% shareholding in Acajou Investments (Proprietary) Limited for R100. This company will be utilised to hold treasury shares acquired in Telkom up to the maximum as allowed by the JSE Securities Exchange rules.		–	

By the Group's 50% joint venture, Vodacom

On March 1, 2004, a 51% interest in the equity of Smartphone SP (Proprietary) Limited, which has a 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited and 53% in Ithuba Smartcall (Proprietary) Limited.

The aggregate fair value of assets acquired and liabilities assumed on the purchase of subsidiaries and joint ventures were as follows:

	2004 Rm
Aggregate fair value of net assets acquired	(5)
Goodwill	(112)
Purchase price	(117)
Cash and cash equivalents	75
Cash consideration	(42)
Less: Amount payable	117
	75

The purchase price of R234 million (Group share: R117 million) was paid on April 7, 2004. The outstanding amount accrued interest at prime less 2% per annum from March 1, 2004 up to the date of payment.

33. Purchase of subsidiaries, joint ventures and minority shareholders' interests (continued)

By the Group's 50% joint venture, Vodacom (continued)

Smartphone SP (Proprietary) Limited had a contingent asset of R71 million at the date of acquisition. The Group valued the asset at RNil. The contingent asset realised during the current financial year. The Group had an obligation under the shareholders agreement to pay the company an additional amount should the asset realise. The additional amount paid by the Group qualified as a contingent purchase consideration and resulted in an adjustment of R36 million to goodwill. The recognition of the contingent asset therefore resulted in a profit of R71 million (Group share: R35 million) in the consolidated income statement for the year ended March 31, 2006 with R35 million (Group share: R17 million) being allocated to minority interest.

On April 16, 2004, a 85.75% interest in the equity of Smartcom (Proprietary) Limited through its 51% owned subsidiary, Smartphone SP (Proprietary) Limited.

	2004 Rm	2005 Rm	**2006 Rm**
Aggregate fair value of net assets acquired		(36)	
Purchase price		(35)	
Cash and cash equivalents		31	
Cash consideration		(4)	
Plus: Smartphone SP (Proprietary) Limited's share of the dividend paid by Smartcom (Proprietary) Limited		(4)	
		(8)	

The purchase price of R78 million (Group share: R39 million) including capitalised costs excluding dividend from Smartcom (Proprietary) Limited, was paid during April 2004. The company declared a dividend to its shareholders from pre-acquisition reserves on August 18, 2004. The dividend was paid on August 31, 2004. The goodwill relating to the acquisition represents future synergies and the ability to directly control the Group's customers.

On February 1, 2005, the cellular business of Tiscali (Proprietary) Limited.

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

	2004 Rm	2005 Rm	**2006 Rm**
Aggregate fair value of net assets acquired		(15)	
Trademarks, copyrights and other		(22)	
Deferred taxation liability		7	
Goodwill		(5)	
Purchase price		(20)	

The customer base was not previously recorded in the accounting records of Tiscali (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control customers. It is impracticable to disclose the revenue and profit of the business that is included in the prior year's results as the customer base was integrated into Vodacom Service Provider Company (Proprietary) Limited. The profit and revenue related to these customers were not separately recorded. For the same reason stated above, it would not be practicable to determine the impact on revenue and profits of the Vodacom Group for a full year.

	2004 Rm	2005 Rm	2006 Rm

33. Purchase of subsidiaries, joint ventures and minority shareholders' interests (continued)

By the Group's 50% joint venture, Vodacom (continued)

On August 1, 2005, the Vodacom Group acquired a 51% interest in the equity of Cointel VAS (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined by the Group and are as follows:

	2004 Rm	2005 Rm	2006 Rm
Fair value of net assets acquired			**(47)**
Property, plant and equipment			**(1)**
Intangible assets			**(90)**
Trade and other receivables			**(4)**
Cash and cash equivalents			**(42)**
Deferred taxation liability			**18**
Trade and other payables			**57**
Taxation payable			**8**
Provision			**1**
Dividends payable			**6**
Minority interest			**23**
Goodwill			**(18)**
Purchase price (including capitalised costs)			**(42)**
Cash and cash equivalents			**42**
Cash consideration			**–**

The purchase price of R84 million (Group share: R42 million), excluding capitalised costs, was paid on August 23, 2005. Capitalised costs were paid throughout the period.

Revenue amounting to R45 million and net profit of R9 million is included in the current period results. Revenue would have amounted to R47,630 million and net profit of R9,146 million if the entity had been consolidated for the full year ended March 31, 2006.

The goodwill related to the acquisition represents future synergies and are allocated to the Mobile South African cash generating unit.

34. Undrawn borrowing facilities and guarantees

34.1 Rand denominated facilities and guarantees

Telkom has general banking facilities of R6,529 million with no amounts utilised at March 31, 2006. The facilities are unsecured, bear interest at a rate linked to prime, have no specific maturity date and are subject to annual review.

The Group exposure is 50% of the following items:

Vodacom has a rand denominated credit facility totalling R7,083 million with R1,114 million unutilised at March 31, 2006. The facilities are uncommitted and can also be utilised for foreign loans and are subject to review at various dates (usually on an annual basis). Certain of the facilities are still subject to the Group's final acceptance.

Guarantor	Details	Beneficiary	2004 Rm	2005 Rm	**2006 Rm**
Vodacom (Proprietary) Limited	All guarantees individually less than R2 million	Various	3	3	**3**
Vodacom Service Provider Company (Proprietary) Limited	All guarantees individually less than R2 million	Various	3	3	**3**
Vodacom Service Provider Company (Proprietary) Limited	Guarantee in respect of receipt of independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in RSA. Terminates on May 31, 2006	SA Insurance Association for benefit of insurers	14	18	**21**
Smartcom (Proprietary) Limited	Guarantees for salary bank account and debit orders	Various	–	3	**3**
			20	27	**30**

34. Undrawn borrowing facilities and guarantees (continued)

34.2 Foreign denominated facilities and guarantees

The Group exposure is 50% of the following items:

Vodacom Tanzania Limited has project funding facilities of USD30 million, which were fully utilised at March 31, 2006. Vodacom Congo (RDC) s.p.r.l. has a revolving credit facility of USD5 million which was fully utilised at March 31, 2006. Vodacom International Limited has a revolving term loan of USD180 million which was fully utilised at March 31, 2006. Vodacom Lesotho (Proprietary) Limited has overdraft facilities with various banks of M47 million and of which MNil million was utilised at March 31, 2006. Foreign currency term facilities are predominantly US Dollar based, at various maturities and are utilised for bridging and short-term working capital needs.

Guarantor	Details	Beneficiary	Currency	2004 Rm	2005 Rm	**2006 Rm**
Nedbank on behalf of Vodacom (Proprietary) Limited	Unsecured standby letters of credit	Alcatel CIT	€11million (2005: €41 million; 2004: €25 million)	195	330	**86**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.**	ABSA	€Nil (2005: €Nil; 2004: S54 million)	416	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.'s revolving credit facility**	ABSA	USDNil (2005: USDNil; 2004: USD32 million)	202	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.**	Standard Finance (Isle of Man) Limited	€Nil (2005: €Nil; 2004: €23 million)	174	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.**	Standard Finance (Isle of Man) Limited	USDNil (2005; USDNil; 2004; USD38 million)	237	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligation of Vodacom International Limited's term loan facility**#	Standard Bank London Limited and RMB International (Dublin) Limited	USD180 million (2005: USD180 million; 2004: USDNil)	–	1,129	**1,114**
Vodacom International Limited	Guarantees issued for the obligation of Vodacom Congo (RDC) s.p.r.l.**	Alcatel CIT	€5 million (2005: €15 million; 2004: €25 million)	193	122	**38**
				1,417	1,581	**1,238**

*** Foreign denominated guarantees amounting to R1,152 million (2005: R1,190 million; 2004: R623 million) issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the balance sheet.*

 # The Vodacom Group is in compliance with the covenants attached to the term loan facility.

Companies within the Group have provided the following guarantees:

Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

	2004 Rm	2005 Rm	**2006 Rm**
35. Commitments			
Capital commitments authorised	7,151	7,970	**10,265**
Fixed-line	4,566	5,029	**6,519**
Mobile	2,585	2,941	**3,746**
Commitments against authorised capital expenditure	439	825	**842**
Fixed-line	88	91	**200**
Mobile	351	734	**642**
Authorised capital expenditure not yet contracted	6,712	7,145	**9,423**
Fixed-line	4,478	4,938	**6,319**
Mobile	2,234	2,207	**3,104**

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

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

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Operating lease commitments				
2006				
Buildings	**890**	**240**	**640**	**10**
Rental receivable on buildings	**(180)**	**(56)**	**(122)**	**(2)**
Transmission and data lines	**131**	**28**	**102**	**1**
Vehicles	**996**	**498**	**498**	**–**
Equipment	**35**	**20**	**15**	**–**
Sport and marketing contracts	**567**	**149**	**418**	**–**
Total	**2,439**	**879**	**1,551**	**9**
2005				
Buildings	1,174	206	788	180
Rental receivable on buildings	(149)	(35)	(94)	(20)
Transmission and data lines	163	32	129	2
Vehicles	347	347	–	–
Equipment	37	6	31	–
Sport and marketing contracts	313	146	167	–
Total	1,885	702	1,021	162
2004				
Buildings	809	141	365	303
Rental receivable on buildings	(227)	(57)	(125)	(45)
Transmission and data lines	64	17	46	1
Vehicles	540	540	–	–
Equipment	37	23	14	–
Sport and marketing contracts	364	149	215	–
Total	1,587	813	515	259

Operating leases

The Group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises are ten years with other leases signed for five years and three years. The bulk of non-equipment-related premises are for leases of three years to ten years. The majority of the leases normally contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 8% to 12%.

35. Commitments (continued)

Operating leases (continued)

Penalties in terms of the lease agreements are only payable should Telkom vacate the premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which Telkom has no further use, no possibility of sub-lease and no option to cancel, are provided for in full and included in other provisions.

The master lease agreement for vehicles was for a period of five years, and expired on March 31, 2005. A new agreement has been negotiated for a period of three years on similar terms and conditions as the previous agreement and is effective April 1, 2005. In accordance with the new agreement Telkom is not allowed to lease any similar vehicle as specified in the contract from any other service provider during the three year period, except for the rentals at airports which are utilised in cases of subsistence and travel, as well as vehicles which are not part of the agreement. The agreement is structured to have no lease increases on vehicles that are continually leased from the lessor. If a vehicle is, however, replaced by a new similar vehicle, the lease costs of the newest vehicle, will increase by the Consumer Price Index. All leased vehicles are, however, subject to any variance in the interest rate fluctuations and are adjusted as and when the adjustments are announced by the South African Reserve Bank. The leases of individual vehicles are renewed annually. The Group is considered to be compelled to renew such leases based upon its historical requirements and contractual obligations. In accordance with the agreement Telkom is not allowed to lease any similar vehicles as those specified in the contract from any other service provider during the contract period.

The master lease agreement for office equipment expired on March 31, 2006. New agreements have been entered into with two suppliers with an initial period of 36 months effective from November 25, 2005. In terms of the new agreements the leases of individual equipment shall be valid for 36 months at a fixed fee for the entire period, whereafter the Group has the option to renew the leases for a further two years at reduced rentals of between 25% and 40% of the initial rentals. Annual increases for newly rented equipment in year two and three of the agreement shall be fixed at between 7.5% and 8%.

	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
Finance lease commitments				
2006				
Lease payments	**2,644**	**217**	**908**	**1,519**
Finance charges	**(1,372)**	**(172)**	**(587)**	**(613)**
Minimum lease payments	**1,272**	**45**	**321**	**906**
The liability is made up as follows:				
Present value of the initial liability	**1,040**			
Finance charges capitalised	**232**			
Liability as disclosed in note 24	**1,272**			
2005				
Lease payments	2,730	172	1,021	1,537
Finance charges	(1,521)	(168)	(642)	(711)
Minimum lease payments	1,209	4	379	826
The liability is made up as follows:				
Present value of the initial liability	1,059			
Finance charges capitalised	150			
Liability as disclosed in note 24	1,209			
2004				
Lease payments	2,884	155	818	1,911
Finance charges	(1,687)	(167)	(642)	(878)
Minimum lease payments	1,197	(12)	176	1,033
The liability is made up as follows:				
Present value of the initial liability	1,086			
Finance charges capitalised	111			
Liability as disclosed in note 24	1,197			

35. Commitments (continued)

Finance leases

A major portion of the finance lease relates to the sale and lease-back of certain of the Group's buildings. The lease term negotiated for the buildings is for a period of 25 years ending 2019. The minimum lease payments are subject to an annual escalation of 10% p.a. Telkom has the right to sublet part of the buildings. In case of breach of contract, the lessor is entitled to cancel the lease agreement and claim damages.
Finance charges accruing on one of the Group's building leases exceed the lease payments for the next four years. Minimum lease payments for the next five years do not result in any income accruing to the Group.

Other

The Group exposure is 50% of the following items:

Interception of Communications and Provisions of Communication-related Information Act ('the Act')

The Act was proclaimed in the Government Gazette and has been made effective September 30, 2005 with the exception of the provisions dealing with customer registration which comes into effect on June 30, 2006. The cellular operators have succeeded in obtaining in principle support by the Department of Justice for an electronic registration process. The legislative amendments necessary to allow for such an electronic registration process have not yet been effected, but are anticipated prior to the effective date of June 30, 2006. The Group has acquired and implemented the monitoring and interception facilities as per the technical specifications of the facilities agreed upon between the Group and the Department of Justice and promulgated on November 28, 2005. A reliable estimate of capital and operating costs that will potentially be incurred in order to comply with the provisions of the Act cannot be determined at this stage.

Global Alliance fees

The Vodacom Group pays annual fees from February 18, 2005 for the services provided. The fee is calculated as a percentage of revenue.

Retention incentives

The Vodacom Group has committed a maximum of R456 million (March 31, 2005: R373 million) in respect of customers already beyond their normal 24 month contract period, but who have not yet upgraded to new contracts, and therefore have not utilised the incentive available for such upgrades. The Group has not provided for this liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

Other

Africell Cellular Services (Proprietary) Limited

An offer to acquire the cellular business of Africell Cellular Services (Proprietary) Limited was made and accepted. The suspensive conditions as well as Competition Commission approval, is currently being attended to.

	2004 Rm	2005 Rm	**2006 Rm**
36. Contingencies			
Third parties	38	33	**30**
Fixed-line	33	30	**27**
Mobile	5	3	**3**
Guarantee of employee housing loans – fixed-line	144	122	**55**

Third parties

These amounts represent sundry disputes with third parties that are not individually significant and that the Group does not intend to settle.

Guarantee of employee housing loans

Telkom guarantees a certain portion of employees' housing loans. The amount guaranteed differs depending on facts such as employment period and salary rates. When an employee leaves the employment of Telkom, any housing debt guaranteed by Telkom is settled before any pension payout can be made to the employee. Telkom recognises a provision when it becomes probable that a guarantee will be called. There is no provision outstanding in respect of these contingencies. The maximum amount of the guarantee in the event of the default is as disclosed above.

The guarantees as at March 31, 2006 have reduced significantly due to negotiations with financial institutions to release certain guarantees older than 5 years.

36. Contingencies (continued)

Supplier dispute

Expenditure of R594 million was incurred up to March 31, 2002 for the development and installation of an integrated end-to-end customer assurance and activation system to be supplied by Telcordia. In the 2001 financial year, the agreement with Telcordia was terminated and in that year, Telkom wrote off R119 million of this investment. Following an assessment of the viability of the project, the balance of the Telcordia investment was written off in the 2002 financial year. During March 2001, the dispute was taken to arbitration where Telcordia was seeking approximately USD130 million plus interest at a rate of 15.50% per year for money outstanding and damages. In September 2002, a partial ruling was issued by the arbitrator in favour of Telcordia. Telkom brought an application in the High Court in South Africa to review and set aside the partial award. Judgement in Telkom's favour was handed down on November 27, 2003.

On July 29, 2004, Telcordia filed a further petition to enforce the arbitrator's partial award in the District Court of New Jersey, USA. On December 8, 2004 the court dismissed Telcordia's petition. Telcordia has since filed its appeal. Telkom has been advised that the appeal court will only finalise the appeal after the Supreme Court of Appeals in South Africa hands down its judgment.

On November 29, 2004, the Supreme Court of Appeals, Bloemfontein granted Telcordia leave to appeal. The appeal is set down for hearing from October 30, 2006 to November 3, 2006.

During the year, Telkom was approached by Telcordia's representatives to consider certain settlement proposals. The dispute between Telkom and Telcordia and the amount of Telkom's liability are not expected to be finalised until the end of 2006. As Telkom does not believe it has a present obligation, it has provided USDNil (March 31, 2005: USDNil) for its estimate of probable liabilities.

Competition commission

The South African Value Added Network Services ('SAVA')

The South African Value Added Network Services ('SAVA'), an association of Value Added Network Services ('VANS') providers, filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. Certain of the complaints have been referred to the Competition Tribunal by the Competition Commission for adjudication. A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The Competition Commission has to date not imposed the maximum penalty.

Telkom has brought an application in the High Court in respect of the Competition Tribunal's jurisdiction to adjudicate this matter. Only the Competition Commission has opposed the application. Telkom is currently waiting for certain confidential documents contained in the Competition Commission's record of proceedings, after which Telkom may supplement their papers if necessary and after which the Competition Commission must file their answering affidavit. Our attorneys are corresponding with the Competition Commission in this regard. Telkom is currently waiting for the Competition Commission to file its record of proceedings. The Competition Commission has now approached the High Court on application for an order directing which of the confidential documents can be included in the record of proceedings.

Telkom does not expect the Competition Tribunal to adjudicate on this matter within the next financial year.

The Internet Service Providers Association ('ISPA')

The Internet Service Providers Association ('ISPA'), an association of internet service providers ('ISPs'), filed complaints against Telkom at the Competition Commission regarding alleged anti-competitive practices on the part of Telkom. A maximum administrative penalty of up to 10%, calculated with reference to Telkom's annual turnover, excluding the turnover of subsidiaries and joint ventures, for the financial year prior to the complaint date, may be imposed if it is found that Telkom has committed a prohibited practice as set out in the Competition Act, 1998 (as amended). The complaints deal with the cost of access to the South African Internet Exchange ('SAIX'), the prices offered by Telkom *Internet* the alleged delay in provision of facilities to ISPs and the alleged favourable installation timelines offered to Telkom *Internet* customers. The Competition Commission has formally requested Telkom to provide it with certain records of orders placed for certain services, in an attempt to first investigate the latter aspects of the complaint.

Contingent asset

Telkom has a contingent asset of R58 million relating to sundry disputes with third parties. No asset has been recognised for these as the realisation of income is not virtually certain.

37. Financial instruments and risk management

Exposure to continuously changing market conditions has highlighted the importance of financial risk management as an element of control for the Group. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors.

The Group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments like trade receivables and payables, arise directly from the Group's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward exchange contracts. The Group does not speculate in derivative instruments.

Interest rate risk management

Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as incremental funding or new borrowings and the refinancing of existing borrowings.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and variable rate debt. In order to manage this mix in a cost efficient manner, the Group makes use of interest rate derivatives as approved in terms of the Group policy. Fixed rate debt represents approximately 92.04% (2005: 91.55%; 2004: 86.89%) of the total consolidated debt, after taking the instruments listed below into consideration. The debt profile of mainly fixed rate debt has been maintained to limit the Group's exposure to interest rate increases given the size of the Group's debt portfolio.

	Floating rate < 1 year Rm	Fixed rate < 1 year Rm	Fixed rate 1-5 years Rm	Fixed rate >5 years Rm	Total Rm
Interest rate repricing profile for interest-bearing debt:					
2006					
Borrowings	**885**	**2,608**	**5,511**	**2,119**	**11,123**
Percentage of borrowings	**7.96%**	**23.44%**	**49.55%**	**19.05%**	**100.00%**
2005					
Borrowings	1,184	4,084	5,778	2,957	14,003
Percentage of borrowings	8.45%	29.17%	41.26%	21.12%	100.00%
2004					
Borrowings	2,196	2,316	9,403	2,839	16,754
Percentage of borrowings	13.11%	13.82%	56.13%	16.94%	100.00%

Borrowings do not include credit facilities utilised of R693 million (2005: R909 million; 2004: R422 million), which are floating rate debt.

The effective interest rate for the year was 13.91% (2005: 15.23%; 2004: 15.14%). At March 31, 2006 the Group did not have a significant interest rate risk exposure on financial assets.

In order to hedge specific exposure in the interest rate repricing profile of existing borrowings and anticipated peak additional borrowings, the Group makes use of interest rate derivatives as approved in terms of Group policy limits.

The table below summarises the interest rate swops outstanding as at March, 31:

	Average maturity	Currency	Notional amount m	Weighted average coupon rate %
2006				
Interest rate swaps				
Pay fixed	**1-5 years**	**ZAR**	**1,000**	**14.67**
Receive fixed	**1-5 years**	**ZAR**	**47**	**9.15**
	>5 years	**ZAR**	**62**	**9.43**
2005				
Interest rate swaps				
Pay fixed	1-5 years	ZAR	1,000	14.67
Receive fixed	1-5 years	ZAR	52	9.73
	> 5 years	ZAR	63	9.53

37. Financial instruments and risk management (continued)

Interest rate risk management (continued)

2004

	Average maturity	Currency	Notional amount m	Weighted average coupon rate %
Interest rate swaps				
Pay fixed	< 1 year	ZAR	150	12.92
	1-5 years	ZAR	1,000	14.67
Receive fixed	1-5 years	ZAR	56	9.99
	> 5 years	ZAR	62	9.82

Pay fixed

The floating rate is based on the three months JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

Pay floating and receive fixed

The Group swapped its fixed rate for a floating rate linked to the BA (Banker's Acceptance) rate plus a margin of between 2% and 2.25%.

Credit risk management

Other financial assets and liabilities

The risk arises from derivative contracts entered into with international financial institutions with a rating of A1 or better. The maximum exposure to the Group from counterparties is a net favourable position of R158 million (2005: R1,083 million; 2004: R853 million). No collateral is required when entering into derivative contracts. Credit limits are reviewed on an annual basis or when information becomes available in the market. The Group limits its exposure to any counterparty and exposures are monitored daily. The Group expects that all counterparties will meet their obligations.

Trade receivables

Credit limits are set on an individual and entity basis. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and levels. Trade receivables comprise a large widespread customer base, covering residential, business and corporate customer profiles. Credit checks are performed on all customers on application for new services, and on an ongoing basis where appropriate.

Liquidity risk management

The Group is exposed to liquidity risk as a result of uncertain trade receivable related cash flows as well as capital commitments of the Group. Liquidity risk is primarily managed by the Corporate Finance division in accordance with policies and guidelines formulated by the Executive Committee. In terms of its borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations. In terms of its long-term liquidity risk, the Group maintains a reasonable balance between the period assets generate funds and the period the respective assets are funded. Short-term liquidity gaps may be funded through repurchase agreements.

Available credit facilities not utilised at March 31, 2006 amounted to R9,519 million (Refer to note 34).

Negative working capital ratio

For each of the financial years ended 2006, 2005 and 2004 the Group had a negative working capital ratio. A negative working capital ratio arises when current liabilities are greater than the current assets. Current liabilities are intended to be financed from operating cash flows, new borrowings and borrowings available under existing credit facilities.

VM S.A.R.L call option

In terms of the shareholders' agreement, the Group's minority shareholder in VM S.A.R.L, Empresa Mocabicana De Telecommunicaçòes S.A.R.L (Emotel) has a call option for a period of four years following the commencement date, August 23, 2003. In terms of the option, Emotel shall be entitled to call on Vodacom International Limited such number of shares in and claims on loan account against VM S.A.R.L as constitute 25% of the entire issued share capital of that company. Emotel can exercise this option in full increments of 1%. The option can only be exercised on April 1 or October 1 of each calendar year for the duration of the option. The option price is specified in the shareholders' agreement. The call option has no value at March 31, 2006 (2005: RNil; 2004: RNil).

Smartphone SP (Proprietary) Limited put option

In term of the shareholder's agreement, the minority shareholders of Smartphone SP (Proprietary) Limited have a put option against Vodacom Group (Proprietary) Limited, should the Group or the company terminate or fail to renew the Service Provider Agreement for any reason other than the expiry or cancellation of the Group's South African license. The put option has no value at March 31, 2006, 2005 and 2004 as the conditions set out in the agreement have not been met.

37. Financial instruments and risk management (continued)

Liquidity risk management (continued)

Smartcom (Proprietary) Limited put option

In terms of the agreement between Vodacom Group (Proprietary) Limited ('the Group'), Smartphone SP (Proprietary) Limited ('Smartphone') and the minority shareholders of Smartcom (Proprietary) Limited ('Smartcom'), the minority shareholders of Smartcom have a put option against the group, should the Group reduce the standard service provider discount below certain percentages as stipulated in the put option agreement. The put option has no value at March 31, 2006 (2005: RNil) as the conditions set out in the agreement have not been met.

Skyprops 134 (Proprietary) Limited call option

In terms of the call option agreement between Vodacom Group (Proprietary) Limited ('Vodacom Group') FirstRand Bank Limited ('FirstRand'), Vodacom (Proprietary) Limited ('Vodacom') and Skyprops 134 (Proprietary) Limited ('company'), FirstRand grants to Vodacom Group an irrevocable call option to require FirstRand at any time to sell the shares in and claims against the company to Vodacom Group. Vodacom Group gave notice to exercise the option during the financial year ended March 31, 2006, and will take over the property in the new financial year.

Congolese Wireless Network s.p.r.l. ('CWN') put option

In terms of a shareholders' agreement, the Group's joint venture partner in Vodacom Congo (RDC) s.p.r.l., Congolese Wireless Network s.p.r.l. ('CWN') has a put option which comes into effect three years after the commencement date, December 1, 2001, and for a maximum of five years thereafter. In terms of the option, CWN shall be entitled to put to Vodacom International Limited such number of shares in and claims on loan account against Vodacom Congo (RDC) s.p.r.l. as constitute 19% of the entire issued share capital of that company. CWN can exercise this option in a maximum of three tranches and each tranche must consist of at least 5% of the entire issued share capital of Vodacom Congo (RDC) s.p.r.l. The option price will be the fair market value of the related shares at the date the put option is exercised. The option has no value at March 31, 2006, 2005 and 2004.

Cointel VAS (Proprietary) Limited call option

In terms of the sale of shares agreement between Vodacom Group (Proprietary) Limited ('Vodacom Group') and the sellers of shares in Cointel VAS (Proprietary) Limited ('Cointel'), the sellers have been granted a put option that requires Vodacom Group to purchase all (and not part only) of the sellers' shares in Cointel. The sellers will only be capable to exercise the put option if the recharge agreement with Vodacom (Proprietary) Limited is not continued after August 31, 2008 on terms and conditions reasonably acceptable to the sellers. The put option has no value at March 31, 2006 as the conditions set out in the agreement have not been met.

Foreign currency exchange rate risk management

In respect of South African operations, the Group manages its foreign currency exchange rate risk by hedging on a portfolio basis, all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

Cross currency swaps and forward exchange contracts have been entered into to reduce the foreign currency exposure on the Group's operations and liabilities. The Group also enters into forward exchange contracts to hedge interest expense and purchase and sale commitments denominated in foreign currencies (primarily USD and Euro). The purpose of the Group's foreign currency hedging activities is to protect the Group from the risk that the eventual net flows will be adversely affected by changes in exchange rates.

The table below reflects the currency and interest rate exposure of liabilities. Foreign currency debt is translated at the year-end exchange rates:

	Fixed rate Rm	Floating rate Rm	Interest-free Rm	Total Rm
Liabilities				
2006				
Currency				
ZAR	**10,209**	**693**	**15,843**	**26,745**
USD	**29**	**757**	**300**	**1,086**
Euro	**–**	**114**	**88**	**202**
Other	**–**	**14**	**31**	**45**
	10,238	**1,578**	**16,262**	**28,078**
2005				
Currency				
ZAR	8,737	1,171	15,891	25,799
USD	41	754	236	1,031
Euro	4,041	137	173	4,351
Other	–	31	24	55
	12,819	2,093	16,324	31,236

	Fixed rate Rm	Floating rate Rm	Interest - free Rm	Total Rm

37. Financial instruments and risk management (continued)

Foreign currency exchange rate risk management (continued)

Liabilities (continued)

2004

Currency	Fixed rate Rm	Floating rate Rm	Interest - free Rm	Total Rm
ZAR	10,611	1,991	13,662	26,264
USD	52	246	341	639
Euro	3,895	337	148	4,380
Other	–	44	19	63
	14,558	2,618	14,170	31,346

Assets

There is no material foreign currency exposure for assets.

Forward exchange contracts

The following contracts relate to specific items on the balance sheet or foreign commitments not yet due. Foreign commitments not yet due consist of capital expenditure ordered but not yet received and future interest payments on loans denominated in foreign currency.

Average maturity	<1 year		1 – 5 years		> 5 years	
	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm	Foreign currency notional amount m	Local currency amount Rm
2006						
Buy foreign currency and sell ZAR						
United States Dollar	**178**	**1,157**	**–**	**–**	**–**	**–**
Pound Sterling	**28**	**321**	**–**	**–**	**–**	**–**
Euro	**156**	**1,235**	**–**	**–**	**–**	**–**
Swedish Krona	**56**	**46**	**–**	**–**	**–**	**–**
Japanese Yen	**33**	**2**	**–**	**–**	**–**	**–**
		2,761		**–**		**–**
Buy ZAR and sell foreign currency						
United States Dollar	**103**	**679**	**25**	**275**	**–**	**–**
Pound Sterling	**5**	**56**	**–**	**–**	**–**	**–**
Euro	**41**	**309**	**–**	**–**	**–**	**–**
Swedish Krona	**28**	**22**	**–**	**–**	**–**	**–**
Japanese Yen	**26**	**1**	**–**	**–**	**–**	**–**
		1,067		**275**		**–**

37. Financial instruments and risk management (continued)

Forward exchange contracts (continued)

Average maturity	<1 year Foreign currency notional amount m	<1 year Local currency amount Rm	1 – 5 years Foreign currency notional amount m	1 – 5 years Local currency amount Rm	> 5 years Foreign currency notional amount m	> 5 years Local currency amount Rm
2005						
Buy foreign currency and sell ZAR						
United States Dollar	182	1,244	–	–	–	–
Pound Sterling	28	337	–	–	–	–
Euro	243	1,891	–	–	–	–
Swedish Krona	23	21	–	–	–	–
Japanese Yen	45	3	–	–	–	–
		3,496		–		–
Buy ZAR and sell foreign currency						
United States Dollar	118	800	34	364	–	–
Pound Sterling	5	57	–	–	–	–
Euro	77	604	–	–	–	–
Swedish Krona	20	19	–	–	–	–
Japanese Yen	21	1	–	–	–	–
		1,481		364		–
Buy Euro and sell USD currency						
United States Dollar	2	19	–	–	–	–
2004						
Buy foreign currency and sell ZAR						
United States Dollar	231	1,706	22	226	–	–
Pound Sterling	17	215	–	–	–	–
Euro	119	1,024	54	369	–	–
Swedish Krona	20	19	–	–	–	–
Japanese Yen	30	2	–	–	–	–
		2,966		595		–
Buy ZAR and sell foreign currency						
United States Dollar	81	613	43	446	–	–
Pound Sterling	7	84	–	–	–	–
Euro	45	383	–	–	–	–
Swedish Krona	17	16	–	–	–	–
Japanese Yen	25	2	–	–	–	–
		1,098		446		–
Buy Euro and sell USD currency						
United States Dollar	11	95	–	–	–	–

37. Financial instruments and risk management (continued)

Foreign currency exchange rate risk management (continued)

Currency swaps

There are no currency swaps in place at March 31, 2006.

	Average maturity	Receive	Average coupon	Pay	Average coupon
2005					
Receive fixed/pay fixed	<1 year	350m EUR	7.13%	2,177m ZAR	15.89%
Receive fixed/pay floating	<1 year	100m EUR	7.13%	630m ZAR	JIBAR+2.30%
2004					
Receive fixed/pay fixed	1 – 5 years	350m EUR	7.13%	2,177m ZAR	15.89%
Receive fixed/pay floating	1 – 5 years	100m EUR	7.13%	630m ZAR	JIBAR+2.30%

Fair value of financial instruments

Fair value of all financial instruments noted in the balance sheet approximates carrying value except as disclosed below.

The estimated net fair values as at March 31, 2006, have been determined using available market information and appropriate valuation methodologies as outlined below. The value is not necessarily indicative of the amounts that the Group could realise in the normal course of business.

	2004		2005		**2006**	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm	**Carrying amount Rm**	**Fair value Rm**
Liabilities (Refer to note 24)						
Total interest-bearing debt	16,754	18,896	14,003	16,054	**11,123**	**13,149**

The fair value of derivatives approximate their carrying amounts.
The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

The fair values disclosed above of borrowings are based on quoted prices or, where such prices are not available, expected future payments discounted at market interest rates.

The fair values of derivatives are determined using quoted prices or, where such prices are not available, discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivative position at the balance sheet date. The fair values of listed investments and the underlying investments held by the cell captive are based on quoted market prices.

	2004 R	2005 R	**2006 R**
Exchange rate table (closing rate)			
United States Dollar	6.357	6.226	**6.180**
Euro	7.790	8.080	**7.482**
Pound Sterling	11.679	11.743	**10.737**
Swedish Krona	0.842	0.883	**0.793**
Japanese Yen	0.061	0.058	**0.052**

38. Directors' interest

NE Mtshotshisa, DD Tabata, M Mostert, TCP Chikane and YR Tenza, five of Telkom's board members, are the Government's representatives on Telkom's Board of Directors. At March 31, 2006, the Government held 37.99% (2005: 37.17%) of Telkom's shares.

T Mahloele is the Public Investment Corporation ("PIC") representative on Telkom's Board of Directors. As at March 31, 2006 PIC held 10.6% of Telkom's shares directly and a further 5.6% indirectly through the Elephant Consortium.

	Beneficial		Non-beneficial	
	Direct	Indirect	Direct	Indirect
Directors' shareholding				
2006				
Non-executive	**455**	**–**	**–**	**88**
NE Mtshotshisa	**–**	**–**	**–**	**88**
T Mosololi	**455**	**–**	**–**	**–**
Total	**455**	**–**	**–**	**88**
2005				
Executive – SE Nxasana	367	802	–	267
Non-executive	455	–	–	88
NE Mtshotshisa	–	–	–	88
T Mosololi	455	–	–	–
Total	822	802	–	355
2004				
Executive – SE Nxasana	273	669	–	223
Non-executive	–	–	–	16,700,276
NE Mtshotshisa	–	–	–	88
MP Moyo*	–	–	–	16,700,000
TG Vilakazi	–	–	–	188
Total	273	669	–	16,700,499

** The shares are beneficially owned by Old Mutual Plc.*

The directors' shareholding did not change between the balance sheet date and the date of issue of the financial statements.

	2004 Rm	2005 Rm	**2006 Rm**
Directors' emoluments	48	35	**15**
Executive			
For other services	47	33	**12**
Non-executive			
For services as directors	1	2	**3**

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Management company R	Total R
38. Directors' interest (continued)						
Directors' emoluments (continued)						
2006						
Emoluments per director:						
Non-executive	***2,969,158***	–	–	–	–	***2,969,158***
NE Mtshotshisa	**759,500**	–	–	–	–	**759,500**
TCP Chikane	**181,022**	–	–	–	–	**181,022**
B du Plessis	**254,391**	–	–	–	–	**254,391**
PSC Luthuli	**168,357**	–	–	–	–	**168,357**
TD Mahloele	**223,227**	–	–	–	–	**223,227**
TF Mosololi	**230,809**	–	–	–	–	**230,809**
M Mostert	**308,272**	–	–	–	–	**308,272**
A Ngwezi	**47,727**	–	–	–	–	**47,727**
DD Tabata	**323,022**	–	–	–	–	**323,022**
YR Tenza	**349,022**	–	–	–	–	**349,022**
PL Zim	**123,809**	–	–	–	–	**123,809**
Executive	–	***2,186,460***	***7,070,262***	***2,990,865***	–	***12,247,587***
LRR Molotsane*	–	**1,250,747**	**3,442,573**	**909,675**	–	**5,602,995**
SE Nxasana*	–	**935,713**	**3,627,689**	**2,081,190**	–	**6,644,592**
Total emoluments – Paid by Telkom	**2,969,158**	**2,186,460**	**7,070,262**	**2,990,865**	–	**15,216,745**
2005						
Emoluments per director:						
Non-executive	*1,528,037*	–	–	–	–	*1,528,037*
NE Mtshotshisa	723,333	–	–	–	–	723,333
RP Menell	51,954	–	–	–	–	51,954
TA Sekano	51,954	–	–	–	–	51,954
TG Vilakazi	58,181	–	–	–	–	58,181
CL Valkin	90,500	–	–	–	–	90,500
MP Moyo+	62,454	–	–	–	–	62,454
Tan Sri Dato' Ir. Md. Radzi Mansor	35,053	–	–	–	–	35,053
TCP Chikane	50,045	–	–	–	–	50,045
B du Plessis	37,782	–	–	–	–	37,782
TD Mahloele	32,454	–	–	–	–	32,454
TF Mosololi	47,619	–	–	–	–	47,619
M Mostert	65,045	–	–	–	–	65,045
A Ngwezi	45,454	–	–	–	–	45,454
DD Tabata	56,545	–	–	–	–	56,545
YR Tenza	80,045	–	–	–	–	80,045
PL Zim	39,619	–	–	–	–	39,619
Executive	–	*2,138,772*	*12,116,113*	*1,166,412*	*18,079,286*	*33,500,583*
SE Nxasana*						
In respect of 2005 financial year	–	2,138,772	3,666,384	1,166,412	–	6,971,568
In respect of 2004 financial year	–	–	8,449,729	–	–	8,449,729
SM McKenzie++	–	–	–	–	6,751,560	6,751,560
JB Gibson++ (alternate)	–	–	–	–	4,008,347	4,008,347
B Manning++ (alternate)	–	–	–	–	3,753,646	3,753,646
CK Tan+++	–	–	–	–	3,565,733	3,565,733
Total emoluments – Paid by Telkom	1,528,037	2,138,772	12,116,113	1,166,412	18,079,286	35,028,620

38. Directors' interest (continued)

Directors' emoluments (continued)

2004

Emoluments per director:

	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Management company R	Total R
Non-executive	*1,292,166*	*–*	*–*	*–*	*–*	*1,292,166*
NE Mtshotshisa	666,666	–	–	–	–	666,666
RP Menell	108,000	–	–	–	–	108,000
TA Sekano	96,000	–	–	–	–	96,000
TG Vilakazi	108,000	–	–	–	–	108,000
C L Valkin	108,000	–	–	–	–	108,000
MP Moyo+	115,500	–	–	–	–	115,500
Tan Sri Dato' Ir. Md. Radzi Mansor	90,000	–	–	–	–	90,000
Executive	*–*	*1,864,845*	*8,200,991*	*1,074,730*	*35,600,612*	*46,741,178*
SE Nxasana*	–	1,864,845	8,200,991	1,074,730	–	11,140,566
SM McKenzie++	–	–	–	–	11,224,756	11,224,756
AJ Lewis++	–	–	–	–	5,517,295	5,517,295
JB Gibson++	–	–	–	–	6,867,629	6,867,629
B Manning++	–	–	–	–	6,241,497	6,241,497
CK Tan+++	–	–	–	–	5,749,435	5,749,435
Total emoluments – Paid by Telkom	1,292,166	1,864,845	8,200,991	1,074,730	35,600,612	48,033,344

** Included in fringe and other benefits is a pension contribution for SE Nxasana and LRR Molotsane of R121,643 (2005: R278,040; 2004: R242,430) and R162,597 (2005: RNil 2006: RNil) respectively paid to the Telkom Retirement Fund. Also included in fringe and other benefits is a termination settlement of R1,574,514 paid to SE Nxasana.* In addition to the emoluments disclosed above, Mr Nxasana received a gain of R3,742,744 being the value of shares which vested on his resignation. (Refer to note 28).

+ Paid to Old Mutual Life Assurance Company.
++ Paid to SBC Communications for services rendered by directors included in consultancy services – managerial fees.
+++ Paid to Telkom Malaysia for services rendered by directors included in consultancy services – managerial fees.

	2004 Rm	2005 Rm	**2006 Rm**
39. Segment information			
Eliminations represent the inter-segmental transactions that have been eliminated against segment results. The mobile segment represents the Group's joint venture Vodacom (Refer to note 41).			
Business Segment			
Consolidated revenue	40,582	43,160	**47,625**
Fixed-line	31,004	31,457	**32,749**
To external customers	30,541	30,888	**32,039**
Inter-company	463	569	**710**
Mobile	11,428	13,657	**17,021**
To external customers	10,041	12,272	**15,586**
Inter-company	1,387	1,385	**1,435**
Elimination	(1,850)	(1,954)	**(2,145)**
Other income	255	280	**480**
Fixed-line	230	255	**430**
Elimination	–	(9)	**–**
Mobile	25	34	**50**
Operating expenses	31,499	32,179	**33,428**
Fixed-line	24,510	23,691	**22,937**
Elimination	(1,387)	(1,385)	**(1,435)**
Mobile	8,839	10,451	**12,636**
Elimination	(463)	(578)	**(710)**
Consolidated operating profit	9,338	11,261	**14,677**
Fixed-line	6,724	8,021	**10,242**
Elimination	924	807	**725**
Mobile	2,614	3,240	**4,435**
Elimination	(924)	(807)	**(725)**
Consolidated investment income	322	350	**397**
Fixed-line	1,324	1,992	**2,583**
Elimination	(1,061)	(1,700)	**(2,250)**
Mobile	59	58	**64**
Consolidated finance charges	3,264	1,695	**1,233**
Fixed-line	2,991	1,647	**839**
Mobile	284	48	**394**
Elimination	(11)	–	**–**
Consolidated taxation	1,738	3,082	**4,520**
Fixed-line	876	1,775	**2,981**
Mobile	862	1,307	**1,539**

	2004 Rm	2005 Rm	**2006 Rm**
39. Segment information (continued)			
Minority interests	69	83	**139**
Fixed-line	56	68	**81**
Mobile	13	15	**58**
Profit attributable to equity holders of Telkom	4,589	6,751	**9,182**
Fixed-line	4,125	6,523	**8,924**
Elimination	(137)	(893)	**(1,525)**
Mobile	1,514	1,928	**2,508**
Elimination	(913)	(807)	**(725)**
Consolidated assets	50,198	50,177	**54,306**
Fixed-line	41,441	40,206	**43,748**
Mobile	9,799	11,157	**12,262**
Elimination	(1,042)	(1,186)	**(1,704)**
Investments	1,735	2,346	**2,963**
Fixed-line	1,466	2,240	**2,861**
Mobile	269	106	**102**
Other financial assets	1,241	5,074	**275**
Fixed-line	1,222	5,039	**256**
Mobile	19	35	**19**
Total assets	53,174	57,597	**57,544**
Consolidated liabilities	13,487	15,209	**15,171**
Fixed-line	9,733	10,658	**10,409**
Mobile	4,796	5,737	**6,466**
Elimination	(1,042)	(1,186)	**(1,704)**
Interest-bearing debt	16,754	14,003	**11,123**
Fixed-line	15,724	12,703	**9,889**
Mobile	1,030	1,300	**1,234**
Other financial liabilities	645	313	**235**
Fixed-line	613	313	**205**
Mobile	32	–	**30**
Tax liabilities	460	1,711	**1,549**
Fixed-line	34	1,395	**1,234**
Mobile	426	316	**315**
Total liabilities	31,346	31,236	**28,078**
Other segment information			
Capital expenditure for property, plant and equipment	4,936	4,464	**6,310**
Fixed-line	3,491	2,820	**3,960**
Mobile	1,445	1,644	**2,350**
Capital expenditure for intangible assets	432	1,387	**1,196**
Fixed-line	371	1,284	**975**
Mobile	61	103	**221**

	2004 Rm	2005 Rm	**2006 Rm**
39. Segment information (continued)			
Other segment information (continued)			
Depreciation and amortisation	6,898	5,944	**5,714**
Fixed-line	5,633	4,522	**4,216**
Mobile	1,265	1,422	**1,498**
Impairment and asset write-offs	350	295	**162**
Fixed-line	350	210	**188**
Mobile	–	85	**(26)**
Intangible assets impairment – Mobile	–	49	**–**
Workforce reduction expense – Fixed-line	302	961	**88**
Geographical Segments			
Consolidated revenue	40,582	43,160	**47,625**
South Africa	39,840	42,027	**46,154**
Other African countries	748	1,135	**1,487**
Elimination	(6)	(2)	**(16)**
Consolidated operating profit	9,338	11,261	**14,677**
South Africa	9,374	10,768	**14,665**
Other African countries	(33)	(88)	**131**
Elimination	(3)	581	**(119)**
Consolidated assets	53,174	57,597	**57,544**
South Africa	52,706	56,544	**56,479**
Other African countries	1,675	1,926	**2,015**
Elimination	(1,207)	(873)	**(950)**
Other segment information Capital expenditure for property, plant and equipment	4,936	4,464	**6,310**
South Africa	4,263	4,117	**5,939**
Other African countries	673	347	**371**
Elimination	–	–	**–**

‘South Africa’, which is also the country of domicile for Telkom, comprises the segment information relating to Telkom and its subsidiaries as well as Vodacom’s South African-based mobile communications network, the segment information of its service providers and its other business segments.

‘Other African countries’ comprises only Vodacom’s mobile communications networks in Tanzania, Lesotho, the Democratic Republic of Congo and Mozambique.

	2004 Rm	2005 Rm	**2006 Rm**
40. Related parties			
Details of material transactions and balances with related parties not disclosed elsewhere in the consolidated annual financial statements were as follows:			
With joint venture: Vodacom Group (Proprietary) Limited *Related party balances*			
Trade receivables	42	42	**48**
Trade payables	(250)	(250)	**(256)**
Related party transactions			
Income	(463)	(569)	**(710)**
Expenses	1,387	1,385	**1,435**
Audit fees	3	3	**3**
Interest received	(11)	–	**–**
With shareholders: Thintana Communications LLC			
Management fees	154	57	**–**
On November 22, 2004, Thintana Communications LLC sold their total interest in Telkom.			
Government *Related party balances*			
Trade receivables	189	185	**194**
Related party transactions			
Income	(1,866)	(1,987)	**(2,106)**
With entities under common control: Major public entities *Related party balances*			
Trade receivables	24	36	**30**
Trade payables	(3)	(8)	**(2)**
The outstanding balances are unsecured and will be settled in cash in the ordinary course of business.			
Related party transactions			
Income	(370)	(448)	**(346)**
Expenses	169	201	**172**
Rent received	(9)	(15)	**(17)**
Rent paid	54	52	**56**

40. Related parties (continued)

With key management personnel:

Including directors' emoluments (Refer to note 38)

Related party transactions

	2004 Rm	2005 Rm	**2006 Rm**
Short-term employee benefits	96	84	**117**
Post-employment benefits	2	3	**4**
Termination benefits	3	–	**12**
Equity compensation benefits	–	3	**6**

Terms and conditions of transactions with related parties

The sales to and purchases from related parties of telecommunication services are made at normal market prices. Except as indicated above, outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended March 31, 2006, the Group has not made any impairment of amounts owed by related parties (2005: Nil; 2004: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

41. Investments in joint ventures

Vodacom Group (Proprietary) Limited

Telkom owns 5,000 shares of 1c each at cost. This amounts to a 50% shareholding in Vodacom Group (Proprietary) Limited. Vodacom is an entity that is jointly controlled by its venturers through a contractual agreement. Telkom applies joint venture accounting in recognising its investment in Vodacom since it shares control of Vodacom with Vodafone, as set out in the joint venture agreement between the two parties, and has chosen to proportionately consolidate Vodacom on a line by line basis. Some of the provisions in the joint venture agreement that indicate how the venturers jointly control the activities of Vodacom are as follows:

- The venturers have the right to appoint the 8 non-executive directors of Vodacom. A further 4 executive directors are appointed to the Board;
- A directing committee has been established that holds all powers, functions and authority of the directors to act for and on behalf of the Company. This directing committee constitutes only the directors as appointed by the venturers;
- All decisions made by the directing committee are mandatorily ratified by the Board of Directors as the ultimate decision lies with the Directing committee; and
- The directing committee, which is composed entirely of venturer appointed directors, is the ultimate oversight committee of, and controls the activities of, Vodacom.

During the 2006 financial year, shareholding changed. Vodafone Holdings (Proprietary) Limited increased its effective shareholding in the Vodacom Group from 35% to 50%. This was achieved by acquiring a 100% shareholding in VenFin Limited, who ultimately owned 15% in the Vodacom Group.

	2004 Rm	2005 Rm	**2006 Rm**
41. Investments in joint ventures (continued)			
Vodacom Group (Proprietary) Limited (continued)			
Vodacom Group (Proprietary) Limited restated its comparatives for the years ended March 31, 2005 and 2004. The Group's proportionate share of Vodacom's assets and liabilities after the restatement is as follows:			
Total assets	10,087	11,297	**12,384**
Non-current assets	6,426	6,944	**8,040**
Current assets	3,661	4,353	**4,344**
Total liabilities and reserves	(10,087)	(11,297)	**(12,384)**
Reserves	(3,756)	(3,880)	**(4,196)**
Minority interests	(46)	(64)	**(142)**
Non-current liabilities	(1,070)	(1,524)	**(932)**
Current liabilities	(5,215)	(5,829)	**(7,114)**
The Group's proportionate share of revenue and expense is as follows:			
Revenue	11,428	13,658	**17,021**
Net operating expenses	(8,815)	(10,417)	**(12,585)**
Profit before net financing charges	2,613	3,241	**4,436**
Net finance charges	(226)	9	**(331)**
Net income before taxation	2,387	3,250	**4,105**
Taxation	(861)	(1,307)	**(1,539)**
Profit after taxation	1,526	1,943	**2,566**
Minority interest	(13)	(15)	**(58)**
Net profit for the year	1,513	1,928	**2,508**
The Group's proportionate share of cash flow is as follows:			
Cash flow from operating activities	2,395	2,075	**2,251**
Cash flow from investing activities	(1,500)	(1,687)	**(2,395)**
Cash flow from financing activities	(399)	(98)	**(53)**
Net (decrease)/increase in cash and cash equivalents	496	290	**(197)**
Effect of exchange rate on cash and cash equivalents	(21)	(3)	**(8)**
Cash and cash equivalents at beginning of year	323	798	**1,085**
Cash and cash equivalents at end of year	798	1,085	**880**

42. Interest in significant subsidiaries

Country of incorporation: RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MAU – Mauritius; MZ – Mozambique

Nature of business: C – Cellular; S – Satellite; MSC – Management services company; TV – Television and related rental services; INV – Investment holding company; PROP – Property company; OTH – Other.

**Dormant at March 31, 2006.*

	Country of incorporation	Issued share capital 2004	Issued share capital 2005	Issued share capital **2006**	Interest in issued ordinary share capital 2004 %	Interest in issued ordinary share capital 2005 %	Interest in issued ordinary share capital **2006 %**
Directory advertising							
Telkom Directory Services (Proprietary) Limited	RSA	R100,000	R100,000	**R100,000**	64.9	64.9	**64.9**
Data application services							
Swiftnet (Proprietary) Limited	RSA	R50,000,000	R50,000,000	**R25,000,000**	100	100	**100**
Other							
Rossal No 65 (Proprietary) Limited	RSA	R100	R100	**R100**	100	100	**100**
Acajou Investments (Proprietary) Limited	RSA	–	R100	**R100**	–	100	**100**
The aggregate net profit of the four subsidiaries is R471 million (2005: R500 million; 2004: R180 million)							
Vodacom has an interest in the following companies (Group Share: 50% of the interest in ordinary share capital as indicated):							
Cellular network operators							
Vodacom (Proprietary) Limited (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Lesotho (Proprietary) Limited (C)	LES	M4,180	M4,180	**M4,180**	88.3	88.3	**88.3**
Vodacom Tanzania Limited (C)	TZN	USD100	TZS10,000	**TZS10,000**	65	65	**65**
Vodacom Mozambique S.A.R.L. (C)	MZ	USD60,000,000	USD60,000,000	**USD60,000,000**	98	98	**98**
Vodacom Congo (RDC) s.p.r.l. (C)	DRC	–	USD1,000,000	**USD1,000,000**	–	51	**51**
Service providers							
Vodacom Service Provider Holdings Company (Proprietary) Limited (INV))	RSA	R1,020	R1,020	**R1,020**	100	100	**100**
Vodacom Service Provider Company (Proprietary) Limited (C)	RSA	R20	R20	**R20**	100	100	**100**
Vodacom Satellite Services (Proprietary) Limited previously known as Globalstar Southern Africa (Proprietary) Limited* (S)	RSA	R100	R100	**R100**	100	100	**100**
GSM Cellular (Proprietary) Limited* (C)	RSA	R1,200	R1,200	**R1,200**	100	100	**100**
Smartphone SP (Proprietary) Limited (C)	RSA	R20,000	R20,000	**R20,000**	51	51	**51**

42. Interest in significant subsidiaries (continued)

	Country of incorporation	Issued share capital 2004	2005	**2006**	Interest in issued ordinary share capital 2004 %	2005 %	**2006 %**
Service providers (continued)							
Smartcom (Proprietary) Limited (C)	RSA	–	R1,000	**R1,000**	–	85.75	**85.75**
Cointel VAS (Proprietary) Limited (C)	RSA	–	–	**R10,204**	–	–	**51**
Other significant subsidiaries of the Group's Joint Venture							
Vodacom Venture No.1 (INV)	RSA	R158,999	R810	**R810**	100	100	**100**
Vodacom Equipment Company (Proprietary) Limited* (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacare (Proprietary) Limited* (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom International Holdings (Proprietary) Limited (MSC)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom International Limited (MSC)	MAU	USD100	USD100	**USD100**	100	100	**100**
Vodacom Properties No.1 (Proprietary) Limited (PROP)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Properties No.2 (Proprietary) Limited (PROP)	RSA	–	R1,000	**R1,000**	–	100	**100**
Stand 13 Eastwood Road							
Dunkeld West (Proprietary) Limited (PROP)	RSA	R100	R100	**R100**	51	51	**51**
Ithuba Smartcall (Proprietary) Limited* (OTH)	RSA	R100	R100	**R100**	26.5	26.5	**26.5**
Vodacom Tanzania Limited (Zanzibar)	TZN	TZS10,000	TZS10,000	**TZS10,000**	99	99	**99**
Joycell Shops (Proprietary) Limited	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Ventures (Proprietary) Limited (OTH)	RSA	–	–	**R100**	–	–	**100**

Indebtedness of Telkom subsidiary companies		2004 Rm	2005 Rm	**2006 Rm**
Swiftnet (Proprietary) Limited	RSA	18	4	**2**
Intekom (Proprietary) Limited	RSA	17	10	**3**
Q-Trunk (Proprietary) Limited	RSA	40	37	**34**
Rossal No 65 (Proprietary) Limited	RSA	249	21	**–**
Acajou Investments (Proprietary) Limited	RSA	–	3	**–**

43. Subsequent events

Dividends

The Telkom Board declared an annual dividend of R2,725 million or 500 cents per share and a special dividend of R2,180 million or 400 cents per share on June 2, 2006, payable on July 14, 2006 for shareholders registered on July 7, 2006 which will fully utilise the available deferred tax asset in STC credits and result in an additional STC taxation liability of R314 million.

Business Connexion Group Limited ('BCX')

On April 4, 2006, Telkom announced its firm intention to make an offer to acquire the entire issued share capital of Business Connexion Group Limited, other than the BCX shares held as treasury shares and, if the trustees of the BCX share incentive trust so agree, the BCX shares held by the BCX share incentive trust. Telkom has offered to acquire the outstanding options in BCX on the same terms and conditions as the offer for the shares. The offer will be implemented by way of a scheme of arrangement in terms of section 311 of the South African Companies Act, to be proposed by Telkom between BCX and its shareholders.

Telkom's offer is for the entire issued share capital of BCX at a cash consideration of R9.00 per share for an aggregate of R2.4 billion, including outstanding options. In addition, Telkom has agreed to BCX paying a dividend of R0.25 per share following the scheme meeting, but prior to the implementation of the scheme. Furthermore, Telkom has agreed to BCX continuing to pay dividends in the ordinary course of business in line with its current policy to maintain a three times dividend cover ratio, excluding exceptional items, provided that such dividends do not materially alter the net cash position of BCX as of November 30, 2005, unless such diminution in cash occurred due to an increase in assets of BCX.

Telkom's offer is subject to the fulfilment, by no later than December 15, 2006, of conditions precedent.

On June 12, 2006, BCX's shareholders voted in favour of the scheme and on June 20, 2006, the South African courts sanctioned the scheme, subject to the approval of the offer by the South African competition authorities, either unconditionally or subject to such conditions as may be acceptable to Telkom by no later than December 15, 2006, or such later date as agreed between Telkom and BCX.

Furthermore, Telkom has entered into an agreement with Gadlex (Proprietary) Limited ('Gadlex') to acquire a certain percentage of Gadlex's investment in Business Connexion (Proprietary) Limited, BCX's major operating subsidiary, at the implied value of the offer for BCX.

Cell captive annuity policy

Subsequent to year-end, an addendum to the annuity policy contract, which transferred a part of the post-retirement medical liability to an annuity fund was signed. This will effectively change the presentation of the liability and the asset as the annuity policy will meet the definition of a plan asset in terms of IAS19 which requires the liability to be reduced by the fair value of the plan asset. The effect of this on the annual financial statements will be a reduction in investments and liabilities to the value of R1,731 million.

Swiftnet (Proprietary) Limited

Telkom is in the process of selling a 30% shareholding in its subsidiary Swiftnet (Proprietary) Limited in order to comply with existing licence requirements from the Independent Communications Authority of South Africa. This process is expected to be finalised by the end of August 2006.

Share buy-back

As part of the Group's commitment to the optimal use of capital, the Telkom Board approved on June 2, 2006 a share buy back programme to the value of R2 billion.

Other matters

The directors are not aware of any other matter or circumstance since the financial year end and the date of this report, not otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

44. US GAAP information

Differences between International Financial Reporting Standards and US Generally Accepted Accounting Principles

The consolidated financial statements of Telkom have been prepared in accordance with International Financial Reporting Standards ('IFRS'), which differ in certain respects from generally accepted accounting principles in the United States ('US GAAP'). Application of US GAAP would have affected the balance sheets as of March 31, 2006, 2005 and 2004 and net income for each of the three years in the periods ended March 31, 2006, 2005 and 2004 to the extent described below. A description of the differences between IFRS and US GAAP as they relate to the Group, as well as its equity accounted investment in Vodacom, are discussed in further detail below.

*The United States Dollar ('US$') amounts disclosed in the footnotes have been translated at March 31, 2006 and for the year then ended from South African Rand ('ZAR') only as a matter of convenience at the exchange rate of ZAR6.15 = US$1, the noon buying rate on March 31, 2006. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the South African Rand amounts have been or could be converted into US Dollars at this or any other rate.

44. US GAAP information (continued)

Net income and equity in accordance with US GAAP

The following details the adjustments to reconcile net income in accordance with IFRS to the amounts determined in accordance with US GAAP for each of the three years in the period ended March 31, 2006, 2005 and 2004.

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Net income according to IFRS	4,658	6,834	**9,321**	**1,516**
US GAAP adjustments – Telkom:				
a) Sale and lease-back transaction	94	94	**–**	**–**
b) Derivative financial instruments	82	86	**89**	**14**
c) Goodwill	25	–	**–**	**–**
d) Pension fund surplus	–	–	**34**	**6**
e) Tax effect of reconciling differences	(66)	(68)	**(45)**	**(7)**
e) Additional distribution tax on retained earnings	(500)	(624)	**(380)**	**(62)**
e) Capital gains tax on Vodacom investment	(63)	(19)	**(36)**	**(6)**
f) Tax rate change	–	(33)	**33**	**5**
g) Income attributable to minority shareholders	(69)	(83)	**(139)**	**(22)**
US GAAP adjustments – Vodacom:				
b) Derivative financial instruments	4	4	**4**	**1**
c) Goodwill	47	–	**–**	**–**
h) Deferred bonus incentive scheme	4	8	**3**	**–**
i) Business combinations	2	(2)	**–**	**–**
e) Tax effect of reconciling differences	(3)	(3)	**8**	**1**
f) Tax rate change	–	(4)	**4**	**1**
j) Foreign operations	–	1	**1**	**–**
k) Impairment reversal	–	–	**(30)**	**(5)**
Net income as per US GAAP	4,215	6,191	**8,867**	**1,442**
Earnings per share				
(Per share amounts in cents)				
Basic	756.7	1,143.3	**1,684.9**	**273.9**
Diluted	756.7	1,141.1	**1,675.7**	**272.5**

Weighted average number of shares (Number of shares)	2004	2005	**2006**
Basic 556,994,962		541,498,547	**526,271,093**
Diluted	556,994,962	542,537,579	**529,152,318**

44. US GAAP information (continued)

The following is a reconciliation of the material adjustments necessary to reconcile shareholders' equity in accordance with IFRS to the amounts in accordance with US GAAP as at March 31, 2006, 2005 and 2004.

		Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Shareholders' equity according to IFRS		21,828	26,361	**29,466**	**4,791**
US GAAP adjustments – Telkom:					
a)	Sale and lease-back transaction	(94)	–	**–**	**–**
b)	Derivative financial instruments	(12)	(1)	**–**	**–**
c)	Goodwill	66	66	**66**	**11**
d)	Pension fund surplus	–	–	**34**	**6**
e)	Tax effect of reconciling differences	40	–	**(12)**	**(2)**
e)	Additional distribution tax on retained earnings	(913)	(1,537)	**(1,917)**	**(312)**
e)	Capital gains tax on Vodacom investment	(214)	(233)	**(269)**	**(44)**
f)	Tax rate change	–	(33)	**–**	**–**
g)	Equity attributable to minority shareholders	(200)	(220)	**(301)**	**(49)**
US GAAP adjustments – Vodacom:					
c)	Goodwill	94	92	**92**	**15**
h)	Deferred bonus incentive scheme	18	26	**29**	**5**
i)	Business combinations	2	–	**–**	**–**
e)	Tax effect of reconciling differences	(7)	(10)	**(2)**	**–**
f)	Tax rate change	–	(4)	**–**	**–**
k)	Impairment reversal	–	–	**(30)**	**(5)**
Shareholders' equity according to US GAAP		20,608	24,507	**27,156**	**4,416**

Comprehensive income

Under US GAAP, SFAS130 'Reporting Comprehensive Income' requires that certain items be recognised as a separate component of equity under the caption 'Accumulated Other Comprehensive income' ('OCI'). Additionally the standard requires that companies present comprehensive income, which is a combination of net income and changes in a company's other accumulated comprehensive income accounts. Changes in the Group's accumulated other comprehensive income is reflected under non-distributable reserves in the balance sheet under IFRS. The following is the roll forward of other comprehensive income for each of the three years in the period ended March 31, 2006:

	Retained earnings Rm	Other Comprehensive Income Rm	Balance Rm
Total April 1, 2003	8,761	261	9,022
Restatement and change in accounting policy	(50)	–	(50)
Restated balance, April 1, 2003	8,711	261	8,972
Movement in retained earnings	3,714		12,425
Net income per US GAAP	4,215	–	
Dividends paid	(501)	–	
Foreign currency translation adjustment	–	(95)	(172)
Increase in fair value of listed investment	–	9	22
Release of transitional adjustment on application of SFAS 133 to net income for 12 month period (net of tax of R28 million)	–	(47)	278
Total March 31, 2004	12,425	128	12,553

	Retained earnings Rm	Other Comprehensive Income Rm	Balance Rm
44. US GAAP information (continued)			
Comprehensive income (continued)			
Total April 1, 2004	12,425	128	12,553
Movement in retained earnings	5,585		18,010
Net income per US GAAP	6,191	–	
Dividends paid	(606)	–	
Consolidation of Vodacom Congo	(117)	41	(76)
Foreign currency translation adjustment	–	(30)	(202)
Net decrease in fair value of listed investment	–	(22)	–
Increase in fair value of listed investment		9	
Realisation of fair value adjustment on investment		(31)	
Release of transitional adjustment on application of SFAS 133 to net income for 12 month period (net of tax of R29 million)	–	(52)	226
Total March 31, 2005	17,893	65	17,958
Movement in retained earnings	**4,066**		**21,959**
Net income per US GAAP	**8,867**	**–**	
Dividends paid	**(4,801)**	**–**	
Foreign currency translation adjustment	**–**	**58**	**(103)**
Release of transitional adjustment on application of SFAS 133 to net income for 12 month period (net of tax of R33 million)	**–**	**(59)**	**167**
Total March 31, 2006	**21,959**	**64**	**22,023**

Movement in shareholders' equity in accordance with US GAAP is as follows:

Shareholders' equity according to US GAAP	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Balance April 1	17,315	20,608	**24,507**	**3,985**
Restatement and change in accounting policy	(50)	–	**–**	**–**
Restated balance, April 1	17,265	20,608	**24,507**	**3,985**
Net income for the year	4,215	6,191	**8,867**	**1,442**
Foreign currency translation reserve	(95)	(30)	**58**	**9**
Fair value adjustments – derivatives	(47)	(52)	**(59)**	**(9)**
Fair value adjustments – investments	9	(22)	**–**	**–**
Dividend declared	(501)	(606)	**(4,801)**	**(780)**
Purchase of treasury shares	(238)	(1,574)	**3**	**–**
Shares bought back and cancelled	–	–	**(1,502)**	**(244)**
Compensation reserve	–	68	**83**	**13**
Business combination	–	(76)	**–**	**–**
Balance March 31	20,608	24,507	**27,156**	**4,416**

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
44. US GAAP information (continued)				
US GAAP income statement, balance sheet and cash flow statement without proportional consolidation of Vodacom:				
Income statements as per US GAAP				
Operating revenue	30,541	30,887	**32,035**	**5,209**
Other income	319	338	**429**	**70**
Operating expenses and depreciation	(24,007)	(23,102)	**(22,186)**	**(3,608)**
Operating income	6,853	8,123	**10,278**	**1,671**
Investment income	277	292	**333**	**54**
Net finance costs	(2,920)	(1,569)	**(752)**	**(122)**
Income after financial items	4,210	6,846	**9,859**	**1,603**
Equity accounted earnings	1,567	1,931	**2,497**	**406**
Taxation (1,506)		(2,518)	**(3,409)**	**(554)**
Minority interests	(56)	(68)	**(80)**	**(13)**
Net income	4,215	6,191	**8,867**	**1,442**
Balance sheets as per US GAAP				
Non-current assets	39,180	38,757	**39,784**	**6,469**
Current assets	8,760	11,835	**10,044**	**1,633**
Total assets	47,940	50,592	**49,828**	**8,102**
Equity 20,608		24,507	**27,156**	**4,416**
Minority interests	153	155	**159**	**26**
Non-current liabilities	15,674	12,330	**11,455**	**1,862**
Current liabilities	11,505	13,600	**11,058**	**1,798**
Total equity and liabilities	47,940	50,592	**49,828**	**8,102**
Cash flow as per US GAAP				
Cash flow from operating activities	11,489	13,636	**7,255**	**1,179**
Cash generated from operations	12,504	13,615	**14,179**	**2,305**
Income from investments	285	340	**313**	**51**
Dividend received	610	1,567	**1,800**	**293**
Dividend paid	(548)	(629)	**(4,884)**	**(794)**
Net financing charges paid	(1,531)	(1,142)	**(1,093)**	**(178)**
Taxation paid	(108)	(115)	**(3,060)**	**(498)**
Taxation received	277	–	**–**	**–**
Cash flow from investing activities	(3,923)	(4,620)	**(4,891)**	**(795)**
Cash flow from financing activities	(6,082)	(9,799)	**(204)**	**(33)**
Net increase/(decrease) in cash and cash equivalents	1,484	(783)	**2,160**	**351**
Net cash and cash equivalents at beginning of year	514	1,998	**1,215**	**198**
Net cash and cash equivalents at end of year	1,998	1,215	**3,375**	**549**

Restatements

Revenue recognition – Connection revenues

For IFRS, prior to April 1, 2005, the fixed line business recognised installation fees when the installation service was provided. For US GAAP, the Group recognised the installation fees over the estimated life of the customer relationship. In the current year, the Group changed its accounting policy under IFRS to ensure comparability with other telecommunications entities reporting under IFRS and to better reflect Telkom's current customer retention focus. As a result, IFRS is in line with US GAAP. The reconciliation of net income therefore no longer reflects a reconciling item related to revenue recognition. This has also resulted in a change in the tax effects of reconciling differences in both the income statement and equity reconciliation.

Cash flow

The cash flow statement has been restated to correctly reflect the equity accounted investment in Vodacom.

Operating leases

The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms.

44. US GAAP information (continued)

Restatements (continued)

Additional distribution tax on retained earnings

The comparatives for the additional distribution tax on retained earnings have been restated as a result of the effects of the restatements mentioned in note 2.

Capital gains tax on Vodacom investment

The comparatives for the Capital gains tax on Vodacom investment have been restated as a result of the restatement related to the straight lining of operating leases.

a) Sale and lease-back transaction

In the year ended March 31, 2000 the Group entered into a sale and lease-back of its vehicle fleet with a third party, part of which has been accounted for under US GAAP as capital leases. Lease contracts were renewed every year. The Group was however deemed to be economically compelled under US GAAP to renew such leases based upon their historical requirements and contractual obligations to source any such requirements during the contract period from the lessor. In accordance with the agreement Telkom was not allowed to lease any similar vehicles as those specified in the contract from any other service provider during the five-year period.
Under the provisions of IAS17, the Group recorded a gain from the sale since it had transferred substantially all of the risks and rewards incidental to ownership of the vehicles to the lessor and the criteria for profit recognition had been satisfied. The Group recognised a gain amounting to R463 million in 2000 and accounted for the lease-backs as operating leases.

Under US GAAP, SFAS13, as amended by SFAS28, the Group determined that while the terms of the agreement provide that the assets underlying the lease-backs would be subject to annual lease contracts, renewable based upon the Group's vehicle requirements and cancelable under certain terms, the lessor's right of first refusal to provide all of the Group's requirements during the five year term represents an economic compulsion to renew the leases. Accordingly, the Group concluded that since the lease-back covered substantially all the assets that were sold under the contract for substantially all their remaining useful lives, deferral of the related gain and recognition over the five year lease term was appropriate.

Based on the requirements of SFAS13, a portion of the vehicle leases which met the recognition criteria of a finance lease was treated as a finance lease due to the fact that when analysed on a vehicle by vehicle basis, the present value of the minimum lease payments of certain individual vehicles exceed 90% of the fair value of these vehicles or the lease term represents more than 75% of the remaining economic life of the vehicles. Accordingly, the full gain realised through the sale of the vehicles was reversed and the proceeds from the sale have been treated as an obligation. Rental payments would be applied to interest expense on the obligation as well as to reduce the principal amount of the obligation. The resulting capital lease assets were being depreciated over their remaining useful lives.

	2004 Rm	2005 Rm
Retained earnings opening balance	(188)	(94)
Recognition of deferred profit	93	92
Depreciation	(45)	(40)
Finance costs	(9)	(8)
Add back: lease expense	55	50
Net impact on income statement per period	94	94
Retained earnings closing balance	(94)	–
Balance sheet		
Capital lease asset	57	17
Opening balance	102	57
Additions	–	–
Depreciation	(45)	(40)
Capital lease liability	59	17
Opening balance	105	59
Additions	–	–
Lease payments	(55)	(50)
Finance charges	9	8

44. US GAAP information (continued)

a) Sale and lease-back transaction (continued)

The initial master lease agreement for vehicles was for a period of five years, and expired on March 31, 2005. A new agreement has been negotiated for a period of three years on similar terms and conditions as the previous agreement and is effective April 1, 2005. In accordance with the new agreement Telkom is not allowed to lease any similar vehicle as specified in the contract from any other service provider during the three year period except for the rentals at airports which are utilised in cases of subsistence and travel as well as vehicles which are not part of the agreement. The agreement is structured to have no lease increases on vehicles that are continually leased from the lessor. If a vehicle is, however, replaced by a new similar vehicle, the lease costs of the newest vehicle will increase by the Consumer Price Index. All leased vehicles are, however, subject to any variance in the interest rate fluctuations and are adjusted as and when the adjustments are announced by the South African Reserve Bank.
Telkom has accounted for the vehicles covered by the new lease under IFRS as operating leases. However for US GAAP purposes, a lessee is required to compute the present value of the lease payments using its incremental borrowing rate unless it is practicable to determine the implicit rate computed by the lessor and that implicit interest rate is less than the lessee's incremental borrowing rate. For IFRS, the discount rate is the implicit interest rate if it is practicable to determine, otherwise the lessee's incremental borrowing rate is used. Telkom was in a position to determine the implicit interest rate in the new lease which was higher than its incremental borrowing rate. The new leases do not qualify as finance leases as a result of using a higher discount rate for IFRS. Some of the leases do however qualify as finance leases for US GAAP as the present value of future minimum lease payments discounted at the incremental borrowing rate, exceeds 90% of the fair value of the leased vehicles.

A summary of the income statement and equity effects of the new lease are as follows:

	2006 Rm	2006* US$m
Retained earnings opening balance	–	–
Depreciation	(14)	(2)
Finance costs	(3)	–
Add back: lease expense	17	2
Net impact on income statement for the period	–	–
Retained earnings closing balance	–	–
Balance sheet		
Capital lease asset	28	5
Opening balance	–	–
Additions	42	7
Depreciation	(14)	(2)
Capital lease liability	28	5
Opening balance	–	–
Additions	42	7
Lease payments	(17)	(2)
Finance charges	3	–

The operating lease commitments under US GAAP as at March 31, 2006 are as follows:

	Buildings Rm	Equipment Rm	Vehicles Rm	Total Rm
2007	102	19	481	602
2008	82	14	481	577
2009	55	–	–	55
2010	40	–	–	40
2011	19	–	–	19
> 5 years	8	–	–	8
Total	306	33	962	1,301

44. US GAAP information (continued)

a) Sale and lease-back transaction (continued)

The finance lease commitments under US GAAP as at March 31, 2006 are as follows:

	Buildings Rm	Equipment Rm	Vehicles Rm	Total Rm
2007	**117**	**4**	**17**	**138**
2008	**124**	**5**	**17**	**146**
2009	**127**	**–**	**–**	**127**
2010	**112**	**–**	**–**	**112**
2011	**122**	**–**	**–**	**122**
> 5 years	**1,428**	**–**	**–**	**1,428**
Total	**2,030**	**9**	**34**	**2,073**
Amount representing interest				**(1,177)**
Capital lease liability				**896**

b) Derivative financial instruments

SFAS133 – Fair value adjustments

The Group adopted IAS39 and SFAS133 on April 1, 2001. Upon adoption of IAS39, the difference between previous carrying amounts and the fair value of derivatives, which prior to the adoption of IAS39 had been designated as cash flow hedges or fair value hedges but which do not qualify for hedge accounting under IAS39, was recognised as an adjustment to the opening balance of retained earnings in the financial year April 1, 2001. Changes in the fair value of derivatives subsequent to April 1, 2001 are recorded in the income statement as they do not qualify for hedge accounting.

Under US GAAP, in accordance with SFAS133, the Group is required to recognise all derivatives on the balance sheet at fair value. The SFAS133 transitional adjustments (at April 1, 2001) are recorded differently than those recorded under IAS39. For pre-existing hedge relationships that would be considered cash flow type hedges, the transitional adjustment should be reported in OCI as a cumulative effect of the accounting change. Any transitional adjustment reported as a cumulative effect adjustment in OCI will subsequently be reclassified into earnings in a manner consistent with the earnings effect of the hedged transaction. For pre-existing hedge relationships that would be considered fair value type hedges, the Group adjusted the carrying values of the hedged item to its fair value, but only to the extent of an offsetting transition adjustment from the previously designated hedging instrument.

The hedged asset or liability is subsequently accounted for in a manner consistent with the appropriate accounting for such assets and liabilities. For both cash flow and fair value hedges any portion of the derivative that is considered ineffective at transition is reported in income as a cumulative effect of an accounting change.

Upon adoption on April 1, 2001, the Group recorded an adjustment to other comprehensive income of R440 million (net of tax of R262 million) representing the fair value adjustment of derivatives for which the pre-existing hedge relationships would be considered cash flow type hedges. In the 2006 fiscal year, the Group reclassified from OCI into earnings R59 million (net of tax of R33 million) (2005: R52 million (net of tax of R29 million)) (2004: R47 million (net of tax of R28 million)) as the hedged transaction impacted earnings. Upon adoption, the Group also recorded an adjustment of R45 million to increase the carrying value of a hedged debt instrument that was the hedged item in what would be considered a fair value type hedge. The fair value adjustment to the hedged item is limited to the extent of an off-setting fair value adjustment to the hedging instrument. In the 2006 fiscal year, the Group amortised the remaining R1 million (2005: R11 million; 2004: R11 million) of the adjustment to the hedged debt instrument into earnings.

c) Goodwill

Prior to April 1, 2004 under IFRS, goodwill arising on the acquisition of a foreign entity was treated as an asset of the Group and translated at the foreign exchange rate in effect at transaction date. In accordance with IFRS the Group amortised goodwill and other intangibles on a straight-line basis over the anticipated benefit period.

Under US GAAP, goodwill arising on the acquisition of a foreign entity was translated at the actual exchange rate at the end of the period. Furthermore, under US GAAP with effect from July 1, 2001 goodwill and intangibles with infinite lives are not amortised for business combinations completed after June 30, 2001. For previously recorded goodwill and intangibles with infinite lives, amortisation ceased on March 31, 2002. These adjustments resulted in an increase in income of R72 million in 2004. The cumulative equity effect in 2004 amounted to R66m, which is the difference that will remain the same as goodwill is also no longer depreciated for IFRS from April 1, 2004.

44. US GAAP information (continued)

c) Goodwill (continued)

The Group adopted the revised IAS21 'The Effects of Changes on Foreign Exchange Rates', effective April 1, 2004. Since that date, under IFRS and US GAAP, goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and translated at the foreign exchange rate ruling at the balance sheet date. The resulting foreign exchange transaction gain or loss is recorded in equity.

The Group adopted IFRS3 'Business Combinations' from April 1, 2004, under which acquired goodwill is no longer amortised, but tested for impairment at least annually (or more frequently if impairment indicators arise). Accordingly, goodwill arising from the Group's investment is not subject to amortisation as from April 1, 2004. Hence, from that date US GAAP and IFRS are similar in this regard.

d) Pension fund surplus

IFRS limits the amount of prepaid pension asset recognised for a defined benefit plan to the lower of the amount initially determined as the defined benefit asset, and the total of unrecognised net actuarial losses and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

For US GAAP purposes, the prepaid pension cost is recognised in full. The amount determined for prepaid pension cost under US GAAP is also different to the amount determined under IFRS due to the unrecognised transitional asset which is being amortised to the income statement over the remaining working lives of the employees under US GAAP. The amount recognised under IFRS is R80m, as compared to the amount of R114 million that has been recognised under US GAAP.

There is a difference in treatment of the transitional asset/liability at inception of the statements under IFRS and US GAAP. In terms of SFAS87, the transitional asset/liability is amortised on a straight-line basis over the remaining working lives of the employees participating in the plan from April 1, 1989. For IFRS purposes, the effect was recognised immediately on transition.

	2004 Rm	2005 Rm	**2006 Rm**	**2006* US$m**
Pension fund				
The net periodic pension costs includes the following components:				
Service cost on benefits earned:				
Interest and service cost on projected benefit obligations	22	22	**22**	**3**
Expected return on plan assets	(31)	(22)	**(24)**	**(4)**
Amortisation of transitional obligation	(3)	(3)	**(3)**	**–**
Amortisation of unrecognised net gain	2	5	**6**	**1**
Net periodic pension (benefit)/cost	(10)	2	**1**	**–**
The status of the pension plan is as follows: Net funding position	29	45	**(38)**	**(6)**
Unrecognised net transitional asset	(41)	(38)	**(35)**	**(6)**
Unrecognised actuarial loss	100	89	**187**	**30**
Pension surplus	88	96	**114**	**18**
Retirement fund				
Service cost on benefits earned:				
The net periodic retirement costs include the following components: Interest and service cost on projected benefit obligations	279	301	**346**	**56**
Expected return on plan assets	(421)	(338)	**(431)**	**(70)**
Amortisation of transitional obligation	1	1	**1**	**–**
Amortisation of unrecognised net gain	–	29	**–**	**–**
Net periodic pension benefit	(141)	(7)	**(84)**	**(14)**

	2004 Rm	2005 Rm	**2006 Rm**	**2006* US$m**
44. US GAAP information (continued)				
d) Pension fund surplus (continued)				
Retirement fund (continued)				
The status of the retirement plan is as follows:				
Net funding position	378	457	**1,596**	**260**
Unrecognised net transitional obligation	7	6	**5**	**1**
Unrecognised actuarial loss/(gain)	383	312	**(742)**	**(121)**
Retirement plan surplus	768	775	**859**	**140**

e) Income taxes

Deferred tax benefits and liabilities are calculated, when applicable, for the differences between IFRS and US GAAP.

Telkom is taxed at a corporate tax rate of 29% (2005: 30%) on taxable income. Telkom incurs an additional Secondary Tax on Companies ('STC') at a rate of 12.5% on any dividends distributed to shareholders. The dividend tax is payable if and only when dividends are distributed. Neither the Group nor the shareholders receive any future tax benefits as a result of additional tax on dividends paid. As required under IFRS, Telkom will recognise the tax effects of dividends when dividends are distributed in the future. Under US GAAP, consistent with the requirements of EITF95-9, the Group measures its income tax expense, including the tax effect of temporary differences, using the tax rate that includes the dividend tax. STC is calculated on retained income after the 1992 fiscal year after deducting the net gains from certain capital transactions as defined and after giving credit for dividends received from Vodacom and other subsidiaries for which related STC tax has been paid.

The following is the reconciliation of the tax expense computed using the statutory tax rate of 29% (2005: 30%; 2004: 30%) to the effective rate of 35% (2005: 37%; 2004: 36%)

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Income before tax per US GAAP	4,210	6,846	**9,859**	**1,603**
Expected income tax expense at statutory rate	1,263	2,054	**2,859**	**465**
Adjustments due to STC on retained income	532	509	**743**	**120**
Exempt income	(180)	(90)	**(161)**	**(26)**
Disallowable expenses	(149)	96	**61**	**10**
Tax rate change	–	–	**(33)**	**(5)**
Tax losses not utilised	–	8	**–**	**–**
Adjustment on possible CGT – Vodacom earnings	63	19	**36**	**6**
Under provision for prior year	(23)	(78)	**(96)**	**(16)**
Effective tax	1,506	2,518	**3,409**	**554**

With respect to the Group's investment in Vodacom, SFAS109 requires that deferred taxes be recognised for the difference between the reported amount and the tax base of such investment. According to South African tax law, the Group would be required to pay Capital gains tax at a rate of 29% (2005: 30%; 2004: 30%) on 50% of any increase in the taxable appreciation in the value of its investment since October 1, 2001. As such, deferred taxes have been recognised on the Group's share of the undistributed earnings of Vodacom since October 1, 2001.

In addition, SFAS109 prohibits recognition of deferred taxation assets or liabilities that under SFAS52 are re-measured from local currency into the functional currency using historical exchange rates and that result from either changes in exchange rates or indexing for taxation purposes. The functional currency of Vodacom Congo (RDC) s.p.r.l. is the US$ and it benefits from indexing for local Democratic Republic of Congo taxation purposes which gives rise to a deferred taxation benefit for IFRS purposes of R101 million.

Under IFRS, no deferred taxation liability was recognised in respect of intangible assets acquired other than in a business combination where there was a difference at the date of acquisition between the assigned values and the taxation bases of the assets.

Under US GAAP, a deferred taxation liability (and corresponding increase in assets acquired) is recognised for all temporary differences between the assigned values and the taxation bases of intangible assets acquired. The recording of such deferred taxation liability has no net impact on net income or shareholder's equity as determined under US GAAP as the decrease in income taxation expense is offset by a corresponding increase in amortisation.

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
44. US GAAP information (continued)				
e) Income taxes (continued)				
Deferred tax				
The tax effects of the US GAAP adjustments relating to Telkom's operations have been calculated based on a tax rate of 36.89% (2005: 37.78%; 2004: 37.78%).				
A reconciliation of the deferred tax balances under IFRS to the amounts determined under US GAAP, is as follows:				
Net deferred tax liability per IFRS	(118)	(435)	**(587)**	**(95)**
Vodacom deferred tax balance (equity accounted)	66	82	**152**	**25**
Additional distribution tax	(913)	(1,537)	**(1,917)**	**(312)**
CGT on Vodacom investment	(214)	(233)	**(269)**	**(44)**
Tax effect of US GAAP adjustments	40	–	**(12)**	**(2)**
Change in tax rate	–	(33)	**–**	**–**
Net deferred tax liability per US GAAP	(1,139)	(2,156)	**(2,633)**	**(428)**

f) Tax rate change

Under IFRS, current and deferred taxation assets and liabilities are measured using taxation rates enacted unless announcements of taxation rates by the government have the substantive effect of actual enactment. The Group's deferred taxation assets and liabilities at March 31, 2006 were recorded at the enacted taxation rate of 29%.

For the purpose of US GAAP, the Group believes that under SFAS109 'Accounting for Income Taxes', measurement of current and future taxation liabilities and assets is based on the provision of the enacted tax law; the effects of future changes in taxation laws or rates are not anticipated. Therefore, the enacted rate of 30% was used for all taxation amounts at March 31, 2005. The Group therefore adjusted the deferred taxation in terms of the difference in the taxation rate used for deferred tax for IFRS as compared to the rate used for US GAAP.

The company tax rate of 29% was promulgated in April 2005 and therefore tax charges under both IFRS and US GAAP for 2006 have been calculated at the enacted rate of 29%. The US GAAP adjustment recorded in 2005 is no longer required and is therefore reversed in 2006.

g) Income and equity attributable to minority interests

The Group adopted IAS27 'Consolidated and Separate Financial Statements', revised from April 1, 2004. In accordance with the guidance, the Group has reclassified its minority interest in the balance sheet from a liability into equity. The Group applied this reclassification retrospectively.

Under US GAAP, minority interest is recorded outside of equity. Therefore, the minority interest under US GAAP is reclassified at the end of each fiscal year from the shareholders' equity reconciliation.

h) Deferred bonus incentive scheme

Under IFRS, the total value of deferred bonus entitlements as calculated at the end of each financial period are provided in full on the balance sheet date, based on the net present value of expected future cash flows.

Under US GAAP, in accordance with FIN28 'Accounting for Stock Appreciation Rights and Other Variable Stock Option Awards Plans' and Interpretation of APB Opinion no's 15 and 25, compensation cost is recognised over the service period or the vesting period if the service period is not defined, based upon the undiscounted value of the entitlements.

i) Business combinations

Under IFRS, the Group fair values 100% of the assets acquired and liabilities assumed in business combinations, including minority interests. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill.

Under US GAAP, the Group should only fair value the percentage of the assets acquired and liabilities assumed, excluding minority interests. Similar to IFRS, the excess of the cost of an acquisition over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill. As a result, the carrying amount of the goodwill for US GAAP purposes is adjusted to reflect the different values assigned to the minority portion of assets and liabilities.

44. US GAAP information (continued)

i) Business combinations (continued)

Under IFRS and US GAAP, losses are generally only allocated to the minority interest up to the amount of the minority's equity in the subsidiary entity. In 2004, for certain Vodacom subsidiaries, the minority interest allocation was a net profit under US GAAP, and a net loss under IFRS (due to the additional amortisation expense). Therefore, there was no minority interest allocation under IFRS, and thus there was a GAAP difference effecting net income. In 2005, the minority interest allocation under both IFRS and US GAAP was a net profit. Therefore, in accordance with IAS27, the income allocation to minority interest was net of the loss not allocated to the minority in 2004. No difference in shareholders' equity exists at the end of 2005 and 2006.

j) Foreign exchange translation on net investment in foreign operations

Upon the adoption of IAS21 'The Effects of Changes in Foreign Exchange Rates', the Group has reclassified the foreign exchange gains or losses of the monetary item that forms part of the net investment in foreign operations which is denominated in a currency other than the functional currency of either the parent company or the foreign operation through earnings and not as a separate component of equity.

For US GAAP, in accordance with SFAS52 'Foreign Currency Translation', foreign exchange gains or losses related to a monetary item that forms part of the net investment in foreign operations are recognised upon consolidation as a component of equity in OCI. There is no impact on equity resulting from the adjustment.

k) Impairment reversal

Under IFRS, in accordance with IAS36 'Impairment of assets', an impairment loss recognised in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

For US GAAP, in accordance with SFAS144 'Accounting for Impairment or Disposal of long lived assets', a restoration of previously recognised impairment loss is prohibited. The adjustment restores the impairment loss net of depreciation recognised under IFRS.

l) Joint venture accounting

Under IFRS, investments qualifying as joint ventures are accounted for under the proportionate consolidation method of accounting. Under the proportionate consolidation method, the venturer records its share of each of the assets, liabilities, income and expenses of the jointly controlled entity on a line-by-line basis with similar items in the venturer's financial statements. The venturer continues to record its total share of the losses in excess of the net investment in the joint venture.

However for US GAAP purposes where the joint ventures are equity accounted, losses are only recognised up to the net investment in the joint venture, unless the investor has committed to continue providing financial support to the investee.

Vodacom equity accounted earnings

Under IFRS, the Group's interests in joint ventures are proportionally consolidated. Under US GAAP, interest in joint ventures not meeting the criteria for accommodation under item 17 of Form 20-F should be reflected in the consolidated financial statements using the equity method. The following table sets out the restated abbreviated US GAAP income statement and balance sheet of the Group joint venture company, Vodacom.

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Income statements as per US GAAP				
Operating income	5,456	6,554	**8,874**	**1,443**
Income after financial items	4,994	6,575	**8,217**	**1,336**
Equity accounted earnings	1	–	**–**	**–**
Taxes	(1,984)	(2,733)	**(3,296)**	**(536)**
Minority interests	(26)	(77)	**(161)**	**(26)**
Change in accounting policy	5	5	**5**	**1**
Net income for the year	2,990	3,770	**4,765**	**775**

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**

44. US GAAP information (continued)

l) Joint venture accounting (continued)

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Balance sheets as per US GAAP				
Non-current assets	12,083	14,176	**16,286**	**2,648**
Current assets	7,128	8,706	**8,689**	**1,413**
Total assets	19,211	22,882	**24,975**	**4,061**
Equity	6,728	6,881	**7,257**	**1,180**
Minority interests	93	166	**321**	**52**
Non-current liabilities	3,317	4,361	**3,538**	**575**
Current liabilities	9,073	11,474	**13,859**	**2,254**
Total equity and liabilities	19,211	22,882	**24,975**	**4,061**

m) Guarantees

Under IFRS, fees received by the Group from issuing guarantees are recognised in income as earned. A liability in respect of the guarantee is not recognised until such time as the contingent liability is thought likely to be realised.

Under US GAAP, the Group adopted the initial recognition and initial measurement provisions of FASB Interpretation No. 45, 'Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others (an interpretation of FASB Statements No. 5, 57 and 107 and Rescission of Interpretation No. 34)' ('FIN45') in fiscal year 2004. This interpretation clarifies that for certain guarantees a guarantor is required to recognise, at the inception of a guarantee entered into after December 15, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee. This interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognised liability over the term of the related guarantee.

The Vodacom Group has issued certain guarantees in connection with borrowings of Vodacom Congo (RDC) s.p.r.l., an equity method investee for US GAAP purposes. On the adoption of FIN45, all guarantees issued during fiscal year 2004 related to Vodacom Congo (RDC) s.p.r.l. were initially recorded at fair value at the balance sheet and subsequently amortised into income statements as the premiums are earned.

n) Onerous contracts

Under IFRS when the Group has a contract that is onerous, the excess obligation is measured and recognised as a provision in accordance with IAS37 Provisions, Contingent Liabilities and Contingent Assets. Under US GAAP, in accordance with SFAS146 'Accounting for Costs Associated with Exit or Disposal Activities', a liability for costs that will continue to be incurred under a contract for its remaining term without corresponding economic benefit to the entity should be recognised and measured at its fair value when the entity ceased using the right conveyed by the contract. The provision raised in respect of the Group's onerous contracts are not significant and therefore no adjustment has been made.

o) Classification of hedging derivatives held for trading

Telkom manages its interest rate and foreign currency exchange rate risk by entering into interest rate swaps and forward exchange contracts. These contracts do not qualify for hedge accounting. For IFRS, these financial instruments are classified as held for trading and are therefore all shown as current assets and liabilities.

For US GAAP, the derivatives that have a maturity of more than one year from balance sheet date are classified as non-current.

The table below shows the maturities of the hedging derivatives (Rm):

Assets	
Maturing within the next twelve months	154
Maturing beyond twelve months	102
Liabilities	
Maturing within the next twelve months	172
Maturing beyond twelve months	33

p) Discounting of trade receivables and payables

Under US GAAP, receivables and payables arising from transactions with customers or suppliers in the normal course of business which are due in customary trade terms not exceeding approximately one year, are not discounted. Under IFRS, Telkom discounts receivables and payables where the discount effect is considered to be material. Receivables that are due in less than one year are therefore discounted for IFRS. The difference is not significant and no adjustment has been made.

44. US GAAP information (continued)

Additional US GAAP disclosures

Intangible assets

Aggregate amortisation expense for other identifiable intangible assets under US GAAP for the year ended March 31, 2006 is R560 million. The estimated amortisation expense for the years ending March 31 is as follows:

	Rm
2007	418
2008	395
2009	356
2010	279
2011	223

Share-based compensation

Telkom conditional share plan
The Group adopted IFRS2 'Share-based Payments' with prospective effect from April 1, 2004. This has resulted in the Group complying with SFAS123 using the prospective method allowed by SFAS148 and as such there is no reconciling differences on the Telkom Conditional Share Plan.

Diabo Share Scheme
Due to the prospective method of adoption of SFAS123 the Group continues to account for stock options granted before April 1, 2004 in accordance with APB Opinion No. 25 'Accounting for Stock Issued to Employees' (APB25) and related interpretations.

Under APB25, Telkom must account for options granted by a principal shareholder to its employees as a result of their employment with Telkom. Accordingly, the excess of the market price of the underlying stock at the date of grant over the exercise price of the employee options, is recognised as a shareholder capital contribution and compensation expense over the vesting period in the financial statements of the Group. The Group recognises this compensation expense for its graded vesting stock options on a straight-line basis over the vesting period of the shares.

Options granted under the Diabo stock option plan established by the principal shareholder, the Government of South Africa, are exercisable at the price of R33.81, expire three years from the date of grant, are not transferable other than on death, and are exercisable in four equal annual installments commencing on the date of grant, the first payments having been made six months from Initial Public Offering ('IPO') date and on the first anniversary date of the scheme.

The compensation expense, applicable to current and qualifying former employees, is calculated as the difference between the option price and the share price on IPO date since it all relates to compensation for past service. Since the option price exceeded the share price on that date, no compensation expense is recorded.

Pro forma information regarding net income and earnings per share is required by SFAS123, as amended by SFAS148, and has been determined as if the Group had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a binomial option pricing model with the following weighted-average assumptions:

- risk-free interest rates based on government zero coupon curve of 13.2% (first option), 12.7% (second option), 11.6% (third option) and 11.3% (last option date);
- dividend yields of 3,33% p.a. (no dividend yield for the first year);
- volatility factors of the expected market price of the company's common stock of 34% p.a.

An actuarially adjusted binomial valuation method has been used that builds up a full binomial tree of possible share prices whenever the option is exercised, and discounts these to establish the fair value of the option granted.

For purposes of pro forma disclosures, the estimated fair value of the options was recognised as a once-off charge of R46 million in 2003 to operating expenses as allowed by the SEC for options granted in connection with privatising governmental entities.

A summary of the Group's stock option activity under the Diabo Share Scheme and related information for the year ended March 31, 2006 follows:

	2004	2005	**2006**
Outstanding number at the beginning of the year	11,140,636	5,570,318	**2,785,159**
Granted during the year	–	–	**–**
Exercised during the year	5,570,318	2,785,159	**2,785,159**
Outstanding at the end of the year	5,570,318	2,785,159	**–**
Exercisable at the end of the year	–	–	**–**

The last options have been exercised as at March 31, 2006 when the Diabo Share Scheme expired.

44. US GAAP information (continued)

Additional US GAAP disclosures (continued)

Restrictions on dividend payouts

All distributable earnings are available for distribution based on the Group's dividend policy. The Board of directors of Telkom decides on an annual basis the amount of earnings to be reinvested in the operations and the amount of any remaining funds that are available for distribution to shareholders.

Retained earnings of our investee, Vodacom, are restricted, since we require the consent of other shareholders in order to require Vodacom to declare dividends. Restricted retained earnings included in the March 31, 2006 balance amount to R4,284 million (2005: R4,029 million; 2004: R3,918 million).

Telkom has invested funds in a Cell Captive, which will be used to fund future post-retirement medical aid costs. These funds will be used for that purpose only and are therefore not distributable.

The following is a reconciliation of retained earnings per US GAAP to the amount of unrestricted retained earnings:

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Retained earnings per US GAAP	12,425	17,893	**21,959**	**3,570**
Share of non-distributable retained earnings in significant investee	(3,918)	(4,029)	**(4,284)**	**(697)**
Cell Captive investment	(237)	(517)	**(1,233)**	**(200)**
Unrestricted retained earnings under US GAAP	8,270	13,347	**16,442**	**2,673**

Statement of income classification items

US GAAP requires the disclosure of certain income statement items	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
Revenues from other services	(22,746)	(24,384)	**(23,579)**	**(3,834)**
Income from rentals	(629)	(662)	**(756)**	**(123)**
Net sales of tangible products	(208)	(194)	**(210)**	**(34)**
Revenue from SA Government	(1,866)	(1,987)	**(2,106)**	**(342)**
Revenue from other related parties	(5,092)	(3,660)	**(5,384)**	**(876)**
Total operating revenue	(30,541)	(30,887)	**(32,035)**	**(5,209)**
Total revenue from services	(30,333)	(30,693)	**(31,824)**	**(5,175)**
– Subscription and connection	(4,915)	(5,168)	**(5,595)**	**(910)**
– Domestic (local and long distance)	(9,680)	(9,323)	**(8,915)**	**(1,450)**
– Fixed to mobile	(7,321)	(7,302)	**(7,647)**	**(1,243)**
– International outgoing	(1,312)	(1,135)	**(1,001)**	**(163)**
– Interconnection	(1,643)	(1,546)	**(1,654)**	**(269)**
– Data	(5,032)	(5,810)	**(6,674)**	**(1,085)**
– Directories and other	(430)	(409)	**(338)**	**(55)**
Revenue from product sales	(208)	(194)	**(211)**	**(34)**
Total operating revenue	(30,541)	(30,887)	**(32,035)**	**(5,209)**
Costs of services	14,928	13,941	**12,888**	**2,096**
Cost of sales related to services	93	75	**83**	**14**
Cost of tangible products sold	201	167	**257**	**42**
Operating expenses of other income and SG&A	7,907	8,162	**8,175**	**1,329**
Operating lease expenses	878	757	**783**	**127**
Total operating expense	24,007	23,102	**22,186**	**3,608**
Net interest and amortisation of debt expense#	(3,170)	(1,862)	**(1,087)**	**(177)**

 # Net interest and amortisation of debt expense include interest received from debtors of R134 million (2005: R127 million; 2004: R157 million) which for IFRS was classified as Other Income.

	Restated 2004 Rm	Restated 2005 Rm	**2006 Rm**	**2006* US$m**
44. US GAAP information (continued)				
Balance Sheet Classification Items				
US GAAP requires the disclosure of certain balance sheet items				
Amounts payable to controlled companies	(115)	(277)	**(120)**	**(20)**
Amounts payable to affiliates	(510)	(491)	**(520)**	**(85)**
Trade creditors	(1,468)	(1,479)	**(1,482)**	**(241)**
Restructuring liability	(97)	(606)	**(3)**	**–**
Other amounts payable	(2,148)	(1,791)	**(1,716)**	**(279)**
Total payable	(4,338)	(4,644)	**(3,841)**	**(625)**

Other payables include the following broad categories of payables: Financial instrument payables, sundry provisions, accruals and VAT payable.

Provisions

The following restructuring provision has been included in other liabilities in the balance sheet items as disclosed in the IFRS financial statements for the Group:

	2004 Rm	2005 Rm	**2006 Rm**	**2006* US$m**
Restructuring provision				
Opening balance	–	97	**606**	**98**
Movement in provision	302	961	**85**	**14**
Workforce reduction payments	(205)	(452)	**(688)**	**(112)**
Closing balance restructuring liability	97	606	**3**	**–**

New US GAAP standards adopted in 2006

On April 1, 2005, the Group adopted EITF Issue 03-6 ‘Participating Securities and the Two-Class Method under FASB Statement No. 128 Earnings per Share.’ (‘EITF03-6’) The consensus addresses how to determine whether a security should be considered a participating security for purposes of computing earnings per share and how earnings should be allocated to a participating security when using the two-class method for computing basic earnings per share. The adoption of this consensus did not have any impact on the calculation of earnings per share.

In June 2005, the Emerging Issues Task Force reached a consensus in EITF Issue 05-6 ‘Determining the Amortisation Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination’ (‘EITF05-6’) that leasehold improvements acquired in a business combination or purchased subsequent to the inception of the lease should be amortised over the shorter of the useful life of the asset or the lease term (that includes reasonably assured lease renewals as determined on the date the leasehold improvements are acquired). The consensus is effective for leasehold improvements acquired in periods beginning after July 1, 2005. The adoption of EITF05-6 did not have a material impact on the Group’s consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47 ‘Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143’ (‘FIN47’). FIN47 clarifies that conditional asset retirement obligations meet the definition of liabilities and should be recognised when incurred if their fair values can be reasonably estimated. The Interpretation is effective no later than December 31, 2005. The adoption of FIN47 did not have a material impact on the Groups’ consolidated financial position or results of operations.

44. US GAAP information (continued)

Recently issued accounting standards

In December 2004, the FASB issued SFAS123 (revised 2004) 'Share-Based Payments' ('SFAS123R'). This statement eliminates the option to apply the intrinsic value measurement provisions of APB25 'Accounting for Stock Issued to Employees' to stock compensation awards issued to employees. Rather, SFAS123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognised over the period during which an employee is required to provide services in exchange for the award. SFAS123R provides a choice of adoption between the modified retrospective method and the modified prospective method. Telkom expects to choose the modified prospective method where the standard will be applied to all awards granted after the effective date of all unvested awards from prior period grants and to awards modified, repurchased, or cancelled after that date. For public entities that do not file as small business issuers, the standard is effective for the first annual reporting period that begins after June 15, 2005. The Group is currently evaluating the impact of SFAS123R on its results of operations, financial position and cash flows.

In March, 2005 the Securities and Exchange Commission ('SEC') issued Staff Accounting Bulletin No 107: 'Share-based Payments' ('SAB 107'). SAB107 summarises the views of the SEC staff regarding the interaction between SFAS123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. The Group does not expect the adoption of SAB107 to have a material effect on the consolidated financial position or the results of operations.

On November 24, 2004, the FASB issued SFAS151 'Inventory Costs, an amendment of ARB No. 43, Chapter 4' ('SFAS151'). The amendments made by SFAS151 clarify that 'abnormal' amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognised as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS151 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board ('IASB') toward development of a single set of high-quality accounting standards. The FASB and the IASB noted that ARB43, Chapter 4 and IAS2, Inventories, are both based on the principle that the primary basis of accounting for inventory is cost. Both of these accounting standards also require that 'abnormal' amounts of idle freight, handling costs, and wasted materials be recognised as period costs; however, the Boards noted that differences in the wording of the two standards could have led to the inconsistent application of those similar requirements. The FASB concluded that clarifying the existing requirements in ARB43 by adopting language similar to that used in IAS2 is consistent with its goals of improving financial reporting in the United States and promoting convergence of accounting standards internationally. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect the adoption of SFAS151 to have a material impact on its operations, financial position or cash flows.

In December 2004, the FASB issued Statement 153 'Exchanges of Non-monetary Assets – an amendment of APB Opinion No. 29' ('SFAS153'). The guidance in Accounting Principles Board Opinion 29 ('APB29'), 'Accounting for Non-monetary Transactions,' is based on the general principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB29 included certain exceptions to that principle. SFAS153 amends APB29 to eliminate the narrow exception for non-monetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of non-monetary assets that do not have commercial substance (that is, transactions where future cash flows are not expected to significantly change as a result of the exchange). The Group will adopt the provisions of SFAS153 for non-monetary asset exchange transactions entered into after April 1, 2006. The Group does not expect the adoption of SFAS153 to have a material impact on its consolidated financial position or results of operations.

In May 2005, the FASB issued Statement 154 'Accounting Changes and Error Corrections' ('SFAS154'). Statement 154 replaces APB Opinion No. 20 'Accounting Changes' and FASB Statement No. 3 'Reporting Accounting Changes in Interim Financial Statements.' SFAS154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle, and requires the retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS154 will only have an effect when the Group implements changes in accounting principle that are addressed by the standard or corrects accounting errors in future periods.

In February 2006, the FASB issued SFAS155 'Accounting for certain hybrid financial instruments' ('SFAS155'). SFAS155 amends SFAS133 'Accounting for derivative instruments and hedging activities', and SFAS140 'Accounting for transfers and servicing of financial assets and extinguishment of liabilities'. It further resolves issues addressed in SFAS133 implementation issue No. D1 'Application of statement 133 to beneficial interest in securitised financial assets'. SFAS155 provides a fair value measurement option for certain hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation and requires that beneficial interest in securitised financial asset be analysed to determine whether there are free standing derivatives or whether there are hybrid instruments that contain embedded derivatives requiring bifurcation. SFAS155 also provides clarification relating to some aspects of accounting for derivatives. SFAS155 is effective for all financial instruments acquired or issued after the first fiscal year beginning after September 15, 2006. The Group is currently evaluating the impact of SFAS155 on its financial position, results of operations and cash flows.

44. US GAAP information (continued)

Recently issued accounting standards (continued)

In March 2006, the FASB issued SFAS156 ‘Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140’ (‘SFAS156’). SFAS156 amends SFAS140 ‘Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities’, with respect to the accounting for separately recognised servicing assets and servicing liabilities. SFAS156 requires a company to recognise a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract principally in a transfer of the servicer’s financial assets that either meets the requirements for sale accounting, or is to a qualifying special-purpose entity in a guaranteed mortgage securitisation in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS115 ‘Accounting for Certain Investments in Debt and Equity Securities’. SFAS156 requires all separately recognised servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits a company to choose to subsequently measure each class of separately recognised servicing assets and servicing liabilities using either a specified amortisation method or a specified fair value measurement method. SFAS156 is applicable to all transactions entered into in fiscal years that begin after September 15, 2006. The Group is currently evaluating the impact of SFAS156 on its results of operations, financial position and cash flows.

In October 2005, the FASB issued FSP FAS123R 2 ‘Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123R’. The FSP provides an exception to the application of the concept of ‘mutual understanding’ in the determination of whether a grant date has occurred. The exception permits companies to measure compensation cost for equity awards to employees on the Board approval date if certain conditions are met, provided that the communication to the employee occurs within a ‘relatively short period of time’ from the approval date. The Group will adopt the provisions of this FSP to new plans as from April 1, 2006. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In October 2005, the FASB issued FSP FAS123R 3 ‘Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards’ which provides a simplified alternative method when a company transitions to SFAS123(R). The alternative method significantly simplifies the calculation of the beginning pool. The FSP provides guidance for the presentation of excess tax benefits in the statement of cash flows for companies that elect to adopt the simplified alternative method of calculating the pool. The guidance in the FSP is effective on November 10, 2005. The FSP allows up to one year from the Group’s initial adoption of SFAS123(R) on April 1, 2006 to evaluate the available transition alternatives. The Group is in the process of assessing the impact of the allowed alternatives.

In July 2005, the FASB issued FSP APB18-1 ‘Accounting by an Investor for its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence’. The FSP requires that if an investor loses significant influence over an investee, the investor’s proportionate share of the investee’s equity adjustments for Other Comprehensive Income should be offset against the carrying value of the investment at the time significant influence is lost by the investor. The Group will adopt the provisions of FSP APB18-1 in the reporting period beginning on April 1, 2006. The Group does not expect the adoption of FSP APB18-1 to have a material impact on its consolidated financial position or results of operations.

In October 2005, the FASB issued FSP FAS13-1 ‘Accounting for Rental Costs Incurred during a Construction Period’. The FSP concludes that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognised as rental expense. The Group will apply the guidance in this FSP to the first reporting period beginning after December 15, 2005. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FSP No’s FAS115-1 and FAS124-1 ‘The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments’, which effectively nullifies the requirements of EITF Issue No. 03-1. This FSP provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Additionally, the FSP provides accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealised losses that have not been recognised as other-than-temporary impairments. The Group will adopt the provisions of this FSP in the reporting period beginning April 1, 2006. The Group does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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REPORT OF THE INDEPENDENT AUDITORS AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

TO THE MEMBERS OF VODACOM GROUP (PROPRIETARY) LIMITED

We have audited the accompanying consolidated balance sheets of Vodacom Group (Proprietary) Limited and subsidiaries ("the Group") as of March 31, 2006 and the related consolidated income statements, statements of changes in equity and cash flows for the three years in the period then ended, set out on pages F-101 to F-193. These consolidated annual financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these consolidated annual financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the standards of the Public Company Accounting Oversight Board ("PCAOB") (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated annual financial statements present fairly, in all material respects, the financial position of the Group as of March 31, 2006, 2005 and 2004, and the results of its operations and its cash flows for the three years then ended, in conformity with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act in South Africa, 1973.

Note 23 to the consolidated annual financial statements discloses certain restatements. These restatements relate to the recognition of operating lease payments on a straight-line basis, an investment property which has been reclassified to property, plant and equipment, the non-current portion of the interest rate swap asset which has been reclassified to current assets, and computer software which was previously classified as part of property, plant and equipment. These restatements do not impact the Group's results, with the exception of the operating lease restatement, or cash flow information for these years.

IFRS vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences is presented in Note 45 to the consolidated annual financial statements.

Deloitte & Touche
Registered Accountants and Auditors

Per S Strydom
Partner

Pretoria,
South Africa
June 2, 2006

** As defined in Rule 1001 of the PCAOB rules included in PCAOB Release No. 2003-007*

CONSOLIDATED INCOME STATEMENTS

for the three years ended March 31, 2006

	Notes	2004 Restated Rm	2005 Restated Rm	**2006** **Rm**
Revenue	1	22,855.2	27,315.3	**34,042.5**
Other operating income		57.6	63.8	**125.1**
Direct network operating cost		(12,435.1)	(14,617.8)	**(18,297.2)**
Depreciation	4	(2,316.9)	(2,413.6)	**(2,651.6)**
Staff expenses		(1,331.6)	(1,652.9)	**(2,042.1)**
Marketing and advertising expenses		(702.0)	(767.3)	**(976.9)**
General administration expenses		(687.2)	(751.3)	**(1,042.7)**
Amortisation of intangible assets	2	(214.8)	(429.6)	**(344.2)**
Impairment of assets	3	–	(268.4)	**52.8**
Profit from operations	4	5,225.2	6,478.2	**8,865.7**
Interest, dividends and other financial income	5	656.6	662.8	**659.3**
Finance costs	6	(1,107.5)	(641.7)	**(1,318.2)**
Profit before taxation		4,774.3	6,499.3	**8,206.8**
Taxation	7	(1,722.0)	(2,613.0)	**(3,077.8)**
Net profit		3,052.3	3,886.3	**5,129.0**

Attributable to:				
Equity shareholders		3,026.1	3,855.5	**5,012.3**
Minority interests		26.2	30.8	**116.7**

		2004 R	2005 R	**2006** **R**
Basic and diluted earnings per share	32	302,610	385,550	**501,230**
Dividend per share	32	210,000	340,000	**450,000**

CONSOLIDATED BALANCE SHEETS

as at March 31, 2006

	Notes	2004 Restated Rm	2005 Restated Rm	**2006** **Rm**
ASSETS				
Non-current assets		12,851.3	13,888.4	**16,079.2**
Property, plant and equipment	8	10,912.5	11,576.9	**13,386.6**
Investment properties	9	9.9	–	**–**
Intangible assets	10	1,002.7	1,644.3	**1,954.9**
Financial assets	11	222.4	93.3	**92.1**
Deferred taxation	12	277.8	308.1	**297.6**
Deferred cost		403.8	236.9	**311.2**
Lease assets		22.2	28.9	**36.8**
Current assets		7,322.7	8,706.4	**8,688.6**
Deferred cost		859.8	428.3	**451.8**
Short-term financial assets	11	354.3	187.1	**149.3**
Inventory	13	288.5	479.5	**454.3**
Trade and other receivables	14	3,450.0	3,621.4	**4,487.1**
Cash and cash equivalents	31	2,370.1	3,990.1	**3,146.1**
Total assets		20,174.0	22,594.8	**24,767.8**
EQUITY AND LIABILITIES				
Equity		7,604.2	7,887.9	**8,672.3**
Ordinary share capital	15	*	*	*
Retained earnings		7,836.1	8,057.2	**8,567.3**
Non-distributable reserves	16	(324.9)	(298.0)	**(178.3)**
Minority interests	17	93.0	128.7	**283.3**
Non-current liabilities		2,317.5	3,233.1	**2,236.6**
Interest-bearing debt	19	1,216.6	2,213.5	**819.2**
Deferred taxation	12	410.1	472.1	**602.3**
Deferred revenue		403.8	240.7	**320.3**
Provisions	22	178.4	184.4	**372.3**
Operating lease liabilities		108.6	122.4	**122.5**
Current liabilities		10,252.3	11,473.8	**13,858.9**
Trade and other payables	20	3,862.1	4,830.8	**5,104.7**
Deferred revenue		1,883.4	1,411.4	**1,604.5**
Taxation payable		852.0	632.6	**630.2**
Non interest-bearing debt	21	4.3	4.3	**4.3**
Short-term interest-bearing debt	19	839.9	381.6	**1,645.5**
Short-term provisions	22	473.7	595.0	**623.0**
Dividends payable		1,500.0	1,800.0	**2,800.0**
Derivative financial liabilities	39	64.5	1.0	**60.9**
Bank borrowings	31	772.4	1,817.1	**1,385.8**
Total equity and liabilities		20,174.0	22,594.8	**24,767.8**

** Amounts less than R50 000*

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the three years ended March 31, 2006

	Notes	Attributable to equity shareholders					
		Share capital	Retained earnings	Non-distributable reserves	Total	Minority interests	Total equity
		Rm	Rm	Rm	Rm	Rm	Rm
Balance at March 31, 2003							
– previously reported		*	6,962.8	(141.0)	6,821.8	88.0	6,909.8
Changes in accounting policies, reclassifications and restatements	23	–	(53.6)	–	(53.6)	–	(53.6)
Balance at March 31, 2003							
– restated		*	6,909.2	(141.0)	6,768.2	88.0	6,856.2
Net profit for the year		–	3,026.1	–	3,026.1	26.2	3,052.3
Dividends declared	32	–	(2,100.0)	–	(2,100.0)	–	(2,100.0)
Contingency reserve	16	–	0.8	(0.8)	–	–	–
Net gains and losses not recognised in the consolidated income statement	16,17						
Foreign currency translation reserve		–	–	(194.0)	(194.0)	(21.2)	(215.2)
Foreign currency translation reserve – deferred taxation		–	–	10.9	10.9	–	10.9
Balance at March 31, 2004							
– restated		*	7,836.1	(324.9)	7, 511.2	93.0	7,604.2
Net profit for the year		–	3,855.5	–	3,855.5	30.8	3,886.3
Dividends declared	32	–	(3,400.0)	–	(3,400.0)	(3.8)	(3,403.8)
Contingency reserve	16	–	(1.0)	1.0	–	–	–
Acquired reserves from the minorities of Vodacom Congo (RDC) s.p.r.l.	30	–	(233.4)	82.1	(151.3)	–	(151.3)
Acquisition of subsidiary	29	–	–	–	–	10.1	10.1
Revaluation of available-for-sale investments	16	–	–	0.2	0.2	0.1	0.3
Net gains and losses not recognised in the consolidated income statement	16,17						
Foreign currency translation reserve		–	–	(56.4)	(56.4)	(1.5)	(57.9)
Balance at March 31, 2005							
– restated		*	8,057.2	(298.0)	7,759.2	128.7	7,887.9
Net profit for the year		–	5,012.3	–	5,012.3	116.7	5,129.0
Dividends declared	32	–	(4,500.0)	–	(4,500.0)	(0.9)	(4,500.9)
Contingency reserve	16	–	(2.2)	2.2	–	–	–
Acquisition of subsidiary	29	–	–	–	–	46.5	46.5
Minority shares of VM, S.A.R.L		–	–	–	–	8.0	8.0
Revaluation of available-for-sale investments	16	–	–	(0.2)	(0.2)	(0.1)	(0.3)
Net gains and losses not recognised in the consolidated income statement	16,17						
Foreign currency translation reserve		–	–	117.7	117.7	(15.6)	102.1
Balance at March 31, 2006		*	**8,567.3**	**(178.3)**	**8,389.0**	**283.3**	**8,672.3**

** Amounts less than R50 000*

CONSOLIDATED CASH FLOW STATEMENTS

for the three years ended March 31, 2006

	Notes	2004 Restated Rm	2005 Restated Rm	**2006** **Rm**
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers		22,175.5	27,078.8	**33,132.7**
Cash paid to suppliers and employees		(14,578.8)	(17,066.8)	**(22,042.4)**
Cash generated from operations	24	7,596.7	10,012.0	**11,090.3**
Finance costs paid	25	(512.3)	(259.2)	**(446.4)**
Interest, dividends and other financial income received	26	368.7	246.8	**338.6**
Taxation paid	27	(1,463.3)	(2,744.4)	**(2,980.3)**
Dividends paid – equity shareholders		(1,200.0)	(3,100.0)	**(3,500.0)**
Dividends paid – minority shareholders		–	(5.2)	**(0.9)**
Net cash flows from operating activities		4,789.8	4,150.0	**4,501.3**
CASH FLOW FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	28	(2,813.8)	(3,048.0)	**(4,346.3)**
Proceeds on disposal of property, plant and equipment		5.0	20.1	**29.6**
Acquisition of intangible assets	10	(121.1)	(205.4)	**(442.1)**
Proceeds on disposal of intangible assets		–	–	**1.6**
Acquisition of subsidiaries	29	149.6	(289.8)	**(0.4)**
Change in business combinations	29	–	–	**0.3**
Acquired cash from Vodacom Congo (RDC) s.p.r.l.	30	–	12.9	**–**
Other investing activities		(219.5)	136.0	**(33.5)**
Net cash flows utilised in investing activities		(2,999.8)	(3,374.2)	**(4,790.8)**
CASH FLOW FROM FINANCING ACTIVITIES				
Shareholder loans repaid		(920.0)	–	**–**
Interest-bearing debt incurred		186.9	1,165.3	**32.3**
Interest-bearing debt repaid		(55.6)	(1,332.3)	**(89.7)**
Finance lease capital repaid		(9.6)	(28.1)	**(50.2)**
Net cash flows utilised in financing activities		(798.3)	(195.1)	**(107.6)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		991.7	580.7	**(397.1)**
Cash and cash equivalents at the beginning of the year		647.5	1,597.7	**2,173.0**
Effect of foreign exchange rate changes		(41.5)	(5.4)	**(15.6)**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	31	1,597.7	2,173.0	**1,760.3**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

March 31, 2006

BASIS OF PREPARATION

These consolidated annual financial statements of Vodacom Group (Proprietary) Limited ("the Group") have been prepared in accordan with International Financial Reporting Standards ("IFRS") and have been prepared on the historical cost basis, except for financial asset and financial liabilities (including derivative instruments) recorded at fair value. The consolidated annual financial statements have been presented in South African Rands, as this is the currency in which the majority of the Group's transactions are denominated.

The principal accounting policies are consistent in all material respects with those applied in the previous period, except where disclosed elsewhere (Note 23).

The following are the principal accounting policies adopted by the Group in the preparation of these consolidated annual financial statements:

ACCOUNTING POLICIES

A. Consolidation

A.1 Basis of consolidation

The consolidated annual financial statements include the consolidated financial position, results of operations and cash flows of Vodacom Group (Proprietary) Limited and its subsidiaries, both foreign and domestic, up to March 31, 2006.

Joint ventures are included using the proportionate consolidation method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"). The Group's share of the assets, liabilities, income, expenses and cash flows of joint ventures are combined on a line-by-line basis with similar items in the consolidated annual financial statements.

Minority interests are separately presented in the consolidated balance sheets and consolidated income statements.

Goodwill on the acquisition of subsidiaries and joint ventures is accounted for in accordance with the Group's accounting policy for intangible assets set out below.

A.2 Business combinations

- Acquisition of a business

  Business combination acquisitions are accounted for using the purchase method of accounting, whereby the acquisition is accounted for at its cost plus any costs directly attributable to the acquisition. Cost represents the cash or cash equivalents paid or the fair value or other consideration given, at the date of the acquisition. Business combinations include the acquisition of subsidiaries and joint ventures.

  On acquisition, the identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries or joint ventures, are measured based upon the Group's interest in their fair value at the date of acquisition, except for non-current assets (or disposal groups) that are classified as held-for-sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell. The interest of minority shareholders is recorded at the minority's share of the fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently, any losses attributable to minority shareholders in excess of their interest, is allocated against the interest of the Group.

- Disposals

  On subsequent disposal, the profit or loss on disposal is the difference between the selling price and the fair value of net assets and liabilities disposed of, adjusted for any related carrying amount of goodwill in accordance with the Group's accounting policies.

A.3 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control is presumed to exist where the Group has an interest of more than one half of the voting rights and the power to control the financial and operating activities of the entities so as to obtain benefits from its activities. All subsidiaries are consolidated.

A. Consolidation(continued)

A.3 Subsidiaries (continued)

Intercompany balances and transactions, and resulting unrealised profits between Group companies, are eliminated in full on consolidation.

Where necessary, accounting policies of subsidiaries are adjusted to ensure that the consolidated annual financial statements are prepared using uniform accounting policies.

Investments in subsidiaries are consolidated from the date on which the Group has power to exercise control, up to the date on which power to exercise control ceases.

A.4 Joint ventures

Joint ventures, for the purpose of these consolidated annual financial statements, are those entities in which the Group has joint control through a contractual arrangement with one or more other venturers.

Investments in joint ventures are proportionately consolidated from the date on which the Group has power to exercise joint control, up to the date on which power to exercise joint control ceases.

The Group's proportionate share of intercompany balances and transactions, and resulting unrealised profit or losses, between Group companies and jointly controlled entities are eliminated on consolidation.

B. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated and is recorded at cost less accumulated impairment losses, if any.

The cost of property, plant and equipment includes all directly attributable expenditure incurred in the acquisition, establishment and installation of such assets so as to bring them to the location and condition necessary for it to be capable of operating in the manner intended by management. Interest costs are not capitalised.

Depreciation is calculated so as to write off the cost of property, plant and equipment on a straight-line basis, over the estimated useful lives to the estimated residual value. Useful lives and residual values are reviewed on an annual basis. Residual values are measured as the estimated amount currently receivable for an asset if the asset were already of the age and condition expected at the end of its useful life. Each significant component included in an item of property, plant and equipment is separately recorded and depreciated.

Depreciation commences when the asset is ready for its intended use (in the case of infrastructure assets this is deemed to be the date of acceptance). Depreciation of an asset ceases at the earlier of the date the asset is classified as held for sale in accordance with IFRS 5 or the date the asset is derecognised. Depreciation is not ceased when assets are idle.

General purpose buildings and special purpose buildings are generally classified as owner-occupied. They are therefore held at cost and depreciated as property, plant and equipment and not regarded as investment properties.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Maintenance and repairs, which neither materially add to the value of the assets nor appreciably prolong their useful lives, are recognised as an expense in the period incurred. Minor plant and equipment items are also recognised as an expense during the period incurred.

B. Property, plant and equipment (continued)

Profits or losses on the retirement or disposal of property, plant and equipment, determined as the difference between the actual proceeds and the carrying amount of the assets, are recognised in the consolidated income statement in the period in which they occur.

Where a network infrastructure site lease contains a restoration clause, or where historical experience indicates that restoration costs will be incurred, a liability for the site restoration costs is recorded. The liability recorded is measured at the present value of the estimated future restoration costs to be incurred. The present value of the liability is capitalised to the underlying infrastructure asset to which the restoration costs relate at the inception of the restoration obligation. These amounts are amortised over the estimated useful life of the related infrastructure asset. The restoration liability is accredited to its future value over the lease period.

Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate, are accounted for as follows:

- changes in the liability are added, or deducted from, the cost of the reflected asset. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit and loss.

C. Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated so as to write off the cost of the investment property on a straight-line basis, over its estimated useful live to its estimated residual value. Depreciation commences when the property is ready for its intended use. The estimated useful lives of depreciable properties are disclosed under property, plant and equipment and can be general purpose buildings or special purpose buildings.

D. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

The following are the main categories of intangible assets:

D.1 Intangible assets with an indefinite useful life

Intangible assets with an indefinite useful life are not amortised but instead are tested for impairment on an annual basis.

- Goodwill

  Goodwill represents the excess of the cost of an acquisition of a subsidiary or joint venture, over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill on the acquisition of subsidiaries and joint ventures is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any. Impairment losses previously recognised cannot be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

D.2 Intangible assets with a finite useful life

Intangible assets with a finite useful life are amortised to the consolidated income statement on a straight-line basis over their estimated useful lives, which are reviewed on an annual basis. Amortisation commences when the intangible asset is available for use. The residual values of intangible assets are assumed to be zero.

- Licences

  Licences, which are acquired to yield an enduring benefit, are capitalised at cost and amortised from the date of commencement of usage rights over the shorter of the economic life or the duration of the licence agreement.

- Customer bases

  Cost of contract customer bases and prepaid customer bases represents the fair value at the acquisition date of mobile customer bases. Customer bases are amortised on a straight-line basis over their estimated useful lives.

D. Intangible assets (continued)

D.2 Intangible assets with a finite useful life (continued)

- Trademarks and brands

  Purchased trademarks and brands are capitalised at cost and amortised over their estimated useful lives. Expenditure incurred to develop, maintain and renew trademarks and brands internally is recognised as an expense in the period incurred.

- Computer software

  Computer software that is not considered to form an integral part of any hardware equipment is recorded as intangible assets. The software is capitalised at cost and amortised over its estimated useful life.

D.3 Intangible assets not available for use

Intangible assets not available for use are not amortised but tested for impairment on an annual basis.

E. Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined by the first-in-first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing it to its present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs to completion and the estimated costs necessary to make the sale.

The amount of any write-down of inventory to net realisable value and all losses of inventory are recognised as an expense in the period that the write-down or loss occurs.

F. Foreign currencies

F.1 Transactions and balances

Foreign currency transactions are translated, on initial recognition, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at settlement date or balance sheet date, whichever occurs first. Exchange differences on the settlement or translation of monetary assets or liabilities are included in finance costs and finance income in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not translated. Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit and loss for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

F.2 Foreign operations

The annual financial statements of foreign operations are translated into South African Rands for incorporation into the consolidated annual financial statements. Assets and liabilities are translated at the foreign exchange rates ruling at balance sheet date. Income, expenditure and cash flow items are translated at the actual foreign exchange rate or average foreign exchange rates for the period.

All resulting unrealised exchange differences are classified as equity. On disposal, the cumulative amounts of unrealised exchange differences that have been deferred are recognised in the consolidated income statement as part of the gain or loss on disposal.

Gains and losses on the translation of equity loans to foreign entities that are intended to be permanent are recognised in equity if the loans are denominated in one of the entities' functional currencies. If the loans are denominated in a third currency, gains or losses are recognised in the consolidated income statement.

Goodwill and intangibles arising on the acquisition of a foreign operation are treated as assets of the foreign operation and translated at the foreign exchange rates ruling at balance sheet date.

G. Taxation

G.1 Current taxation

The charge for current taxation is based on the results for the period and is adjusted for items that are non-assessable or disallowed. Current taxation is measured at the amount expected to be paid, using taxation rates and laws that have been enacted or substantively enacted by the balance sheet date.

G.2 Deferred taxation

Deferred taxation is provided using the balance sheet liability method for all temporary differences arising between the carrying amounts of assets and liabilities, on the consolidated balance sheet, and their respective taxation bases. Deferred taxation is not provided on differences relating to goodwill for which amortisation is not deductible for taxation purposes nor on the initial recognition of assets or liabilities, which is not a business combination and, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred taxation liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and joint ventures, except where the company is able to control the timing of the reversal of the temporary differences and it is probable that it will not reverse in the foreseeable future.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the associated unused taxation losses or credits and deductible temporary differences can be utilised.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group has the intention to settle its current tax assets and liabilities on a net basis.

Exchange differences arising from the translation of foreign taxation assets and liabilities of foreign entities where the functional currency is different to the local currency are classified as a deferred taxation expense or income.

G.3 Secondary taxation on companies

Secondary taxation on companies ("STC") is provided for at a rate of 12.5% on the amount of the net dividend declared by Vodacom Group (Proprietary) Limited. It is recorded as a tax expense when dividends are declared.

STC credits on dividends received are recorded as assets in the period that they arise, limited to the reserves available for distribution.

H. Employee benefits

H.1 Post-employment benefits

The Group provides defined contribution funds for the benefit of employees, the assets of which are held in separate funds. The funds are funded by payments from employees and the Group. Contributions to the funds are recognised as an expense in the period in which the employee renders the related service.

The Group has no liability for contributions to the medical aid of retired employees.

H.2 Short-term and long-term benefits

The cost of all short-term employee benefits, such as salaries, employee entitlements to leave pay, bonuses, medical aid and other contributions, are recognised during the period in which the employee renders the related service. The Group recognises the expected cost of bonuses only when the Group has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The Group provides long-term incentives to eligible employees payable on termination or retirement. The Group's liability is based on an actuarial valuation. Actuarial gains and losses on the long-term incentives are accounted for in the year in which they arise through profit and loss.

H. Employee benefits (continued)

H.3 Accumulative termination benefits

Accumulative termination benefits are payable whenever:

- an employee's employment is terminated before the normal retirement date; or
- an employee accepts voluntary redundancy.

The Group recognises termination benefits when it is constructively obliged to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits fall due more than 12 months after balance sheet date, they are discounted to present value. If the amount can be reasonably estimated, the measurement of termination benefits is based on the number of employees expected to accept the offer.

H.4 Compensation benefits

Employees of wholly owned subsidiaries, including executive directors, are eligible for compensation benefits in the form of a deferred bonus incentive scheme. The benefit is recorded at the present value of the expected future cash outflows.

I. Revenue recognition

Revenue net of discounts, which excludes value added taxation and sales between Group companies, represents the invoiced value of goods and services supplied by the Group. The Group measures revenue at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. If necessary, revenue is split into separately identifiable components.

The Group invoices its independent service providers for the revenue billed by them on behalf of the Group. The Group, within its contractual arrangements with its agents, pays them administrative fees. The Group receives in cash, the net amount equal to the gross revenue earned less the administrative fees payable to the agents.

The recognition of revenue involves estimates and assumptions with regard to the useful life of the customer base. The estimates and assumptions are based on past experience.

The main categories of revenue and bases of recognition for the Group are:

I.1 Contract products

Contract products that may include deliverables such as a handset and 24-month service are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the handset is recognised when the product is delivered.
- Monthly service revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis. The terms and conditions of the bundled airtime products, where applicable, allow the carry over of unused airtime. The unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in revenue.

I. Revenue recognition (continued)

I.2 Prepaid products

Prepaid products that may include deliverables such as a SIM-card and airtime are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a standalone basis as a percentage of the aggregated fair value of the individual deliverables. Revenue allocated to the identified deliverables in each revenue arrangement and the cost applicable to these identified deliverables are recognised based on the same recognition criteria of the individual deliverable at the time the product or service is delivered.

- Revenue from the SIM-card, representing activation fees, is recognised over the average useful life of a prepaid customer.
- Airtime revenue is recognised on the usage basis. Unused airtime is deferred in full.
- Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer relationship, all deferred revenue for unused airtime is recognised in revenue.

Upon purchase of an airtime voucher the customer receives the right to make outgoing voice and data calls to the value of the airtime voucher. Revenue is recognised as the customer utilises the voucher.

Deferred revenue and costs related to unactivated starter packs which do not contain any expiry date, is recognised in the period when the probability of these starter packs being activated by a customer becomes remote. In this regard the Group applies a period of 36 months before these revenue and costs are released to the consolidated income statement.

I.3 Data revenue

Revenue net of discounts, from data services is recognised when the Group has performed the related service and depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

I.4 Equipment sales

All equipment sales are recognised only when delivery and acceptance has taken place.

Equipment sales to third party service providers are recognised when delivery is accepted. No rights of return exist on sale to third party service providers.

I.5 Other revenue and income

- Interconnect and international revenue
  Interconnect and international revenue is recognised on the usage basis.

- Dividends
  Dividends from investments or subsidiaries are recognised when the right to receive payment has been established.

- Interest
  Interest is recognised on a time proportion basis with reference to the principal amount receivable and the effective interest rate applicable.

J. Leases

J.1 Lease classification

Leases involving property, plant and equipment whereby the lessor provides finance to the lessee with the asset as security, and where the lessee assumes the significant risks and rewards of ownership of those leased assets, are classified as finance leases.

Leases of property, plant and equipment to the lessee, under which the lessor effectively retains the significant risks and rewards of ownership of those leased assets, are classified as operating leases.

A lease of land and buildings is classified by considering the land and buildings elements separately. Minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the land and leasehold buildings elements of the lease.

J. Leases(continued)

J.2 Group as lessee

- Finance leases

Lessee finance leases are capitalised as property, plant and equipment at their cash equivalent cost and a corresponding finance lease liability is raised. The cash equivalent cost is the lower of fair value or the present value of the minimum lease payments, at inception of the lease. Such assets are depreciated in accordance with the accounting policy on property, plant and equipment stated above.

Lease payments are allocated between lease finance costs and a capital reduction of the finance lease liability. Lease finance costs are allocated to the consolidated income statement over the term of the lease using the effective interest rate method, so as to produce a constant periodic rate of return on the remaining balance of the liability for each period.

- Operating leases

Lessee operating lease rental payments are expensed in the consolidated income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease term has expired any payment to the lessor that is required, by way of penalty, is recognised as an expense in the period in which termination takes place.

J.3 Group as lessor

- Finance leases

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

- Operating leases

Lessor operating lease rental income is recognised in the consolidated income statement on a straight-line basis over the lease term. Such leased assets are included under property, plant and equipment and depreciated in accordance with the accounting policy stated above.

K. Derivative instruments

The Group recognises all derivative instruments on the consolidated balance sheet at fair value, including certain derivative instruments embedded in other contracts. Changes in the fair value of derivative instruments are recorded in earnings as they arise.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives unless the risks and characteristics are closely related to those host contracts or the host contracts are carried at fair value.

Where the fair value of derivatives cannot be reliably estimated, the derivatives are recorded at cost.

The Group does not use derivatives for trading or speculative purposes. However, derivatives that are not accounted for as hedges are classified as trading instruments in current assets.

L. Financial instruments – other than derivatives

L.1 Initial recognition and measurement

All financial instruments, other than derivatives which are dealt with above, are recognised in the consolidated balance sheet. Financial instruments are initially recognised when the Group becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given (financial asset) or received (financial liability or equity instrument) for it.

Financial liabilities and equity instruments issued by the Group are classified at initial recognition as debt or equity or compounded instruments in terms of IAS 32: Financial Instruments: Disclosure and Presentation ("IAS 32") on the basis of the contractual terms.

Purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

L. Financial instruments – other than derivatives (continued)

L.2 Financial assets

The Group's principal financial assets other than derivatives are investments, trade and other receivables and bank and cash balances:

- Investments

  All financial assets not carried at fair value through profit or loss are initially recognised at fair value including directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

  Investments in equity instruments, excluding those in subsidiaries and joint ventures, are classified as available-for-sale investments and are stated at fair value. Gains and losses from changes in fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of or it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the consolidated income statement. These investments are classified as current.

  Investments acquired principally for the purpose of generating a profit from the short-term fluctuations in price, are classified as financial assets at fair value through profit and loss and are recorded and measured at fair value. Financial assets at fair value through profit or loss consists of financial assets held-for-trading or those designated at fair value through profit or loss at inception. Gains and losses on these investments are recorded in the consolidated income statement. These investments are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

  Held-to-maturity investments carried at amortised costs are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

- Receivables

  Receivables that include interest-bearing investments, investments in finance leases, trade and other receivables, and other loans are stated at original investment less principal payments, amortisations, and less accumulated impairment losses. Receivables originated by the Group by providing goods or services directly to the customer are carried at original invoice amount less provision for doubtful receivables. A provision for doubtful receivables is established when there is objective evidence that the Group has incurred a loss and will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount.

  The provision for doubtful receivables covers losses where there is objective evidence that the Group incurred a loss at the balance sheet date. These incurred loss events have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the customers and reflecting the current economic climate in which the borrowers operate. When a receivable is uncollectible, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

- Bank and cash balances

  The accounting policy for bank and cash balances is dealt with under cash and cash equivalents set out below.

L.3 Financial liabilities

The Group's principal financial liabilities other than derivatives are interest-bearing debt, trade and other payables, non-interest-bearing debt, dividends payable, provisions, bank borrowings and other short-term debt:

- Interest-bearing debt

  Interest-bearing debt, including finance lease obligations, is originally recognised at fair value, net of transaction costs incurred. Interest-bearing debt is subsequently stated at amortised cost, namely original debt less principal payments and amortisations. Any differences between proceeds and the redemption value are recognised in the consolidated income statement over the period of the debt using the effective interest rate method. The accounting policy for finance lease obligations is dealt with under leases set out above.

L. Financial instruments – other than derivatives (continued)

L.3 Financial liabilities (continued)

Interest-bearing debt is classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Preference shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the consolidated income statement as interest expense.

- Trade and other payables
  Trade and other payables are stated at their amortised cost.

- Dividends payable
  Dividends payable are stated at amounts declared.

- Provisions
  Provisions are recognised, when the Group has a present legal or constructive obligation resulting from past events, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A past event is deemed to give rise to a present obligation if, taking into account all of the available evidence, it is more likely than not that a present obligation exists at balance sheet date.

  The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at balance sheet date, taking into account risks and uncertainties surrounding the provision. Long-term provisions are discounted to net present value.

- Bank borrowings and other short-term debt
  The accounting policy for bank borrowings and other short-term debt is dealt with under cash and cash equivalents set out below.

L.4 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's principal equity instrument is ordinary share capital, which is recorded at the proceeds received, net of any direct issue costs.

L.5 Derecognition

Financial assets (or a portion thereof) are derecognised when the Group's rights to the cash flow expire or when the Group transfers substantially all the risks and rewards related to the financial asset or when the entity loses control of the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in the consolidated income statement.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expired. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and settlement amounts paid are included in the consolidated income statement.

L.6 Fair value methods and assumptions

The fair value of financial instruments traded in an organised financial market is measured at the applicable quoted prices.

The fair value of financial instruments not traded in an organised financial market, is determined using a variety of methods and assumptions that are based on market conditions and risks existing at balance sheet date, including independent appraisals and discounted cash flow methods.

The carrying amounts of financial assets and liabilities with a maturity of less than six months are assumed to approximate their fair value.

L. Financial instruments – other than derivatives (continued)

L.7 Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

M. Impairment of assets

Goodwill and other assets that have an indefinite useful life and intangible assets not available for use are tested annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in the consolidated income statement immediately. The recoverable amount of an asset is the higher of the asset's fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

The value in use of an asset represents the expected future cash flows, from continuing use and disposal that are discounted to their present value using an appropriate pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash-generating unit, first to goodwill in respect of the cash-generating unit, if any, and then to the other assets on a pro-rata basis based on their carrying amounts. The carrying amount of individual assets is not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods. No goodwill impairment losses are reversed.

After the recognition of an impairment loss, any depreciation or amortisation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its estimated residual value, on a systematic basis over its remaining useful life.

N. Insurance contracts

N.1 Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude value added tax. Premiums written include adjustments to premiums written in prior accounting periods.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance business assumed.

The net earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

N. Insurance contracts (continued)

N.2 Unearned premium provision

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis or another suitable basis for uneven risk contracts.

N.3 Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

N.4 Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa. Transfers to and from this reserve are treated as appropriations of retained income.

O. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, net of bank borrowings, all of which are available for use by the Group unless otherwise stated.

Cash on hand is initially recognised at fair value and subsequently measured at its face value.

Deposits held on call are classified as loans receivable by the Group and carried at amortised cost. Due to the short-term nature of these, the amortised cost approximates its fair value.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

P. Borrowing costs

Borrowing costs are expensed as they are incurred.

Q. Expenses

Marketing and advertising costs are expensed as they are incurred. Prepaid costs related to annual events sponsorships are expensed over the duration of the event.

R. Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

Distribution incentives paid to service providers and dealers for exclusivity are deferred and expensed over the contractual relationship period.

S. Non-current assets held for sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of the assets' previous carrying amount and fair value less cost to sell.

T. Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

U. Comparatives

Certain comparative figures have been reclassified, where required or necessary, in accordance with current period classifications and presentation.

	2004 Rm	2005 Rm	**2006 Rm**
1. REVENUE			
Airtime and access	12,738.0	16,190.8	**20,085.8**
Data revenue	1,039.2	1,340.5	**2,037.6**
Interconnect revenue	5,784.8	5,923.6	**6,696.8**
Equipment sales	2,274.6	2,687.3	**3,985.6**
International airtime	659.2	886.8	**971.2**
Other	359.4	286.3	**265.5**
	22,855.2	27,315.3	**34,042.5**
2. AMORTISATION OF INTANGIBLE ASSETS			
Goodwill	(93.6)	–	**–**
Licences	(14.8)	(17.1)	**(8.5)**
Trademarks	(7.3)	(42.6)	**(52.3)**
Customer bases	(99.1)	(172.4)	**(106.9)**
Computer software	*	(197.5)	**(176.5)**
	(214.8)	(429.6)	**(344.2)**

** Refer Note 10 regarding information on the software reclassification.*

	2004 Rm	2005 Rm	**2006 Rm**
3. IMPAIRMENT OF ASSETS			
Intangible assets	–	(97.5)	**(0.1)**
Licences	–	(97.5)	**–**
Software	–	–	**(0.1)**
Property, plant and equipment	–	(170.9)	**52.9**
Infrastructure	–	(142.3)	**59.9**
Information services	–	(23.3)	**(5.6)**
Motor vehicles	–	(2.4)	**(0.3)**
Furniture	–	(1.3)	**(0.4)**
Office equipment	–	(0.3)	**(0.1)**
Leasehold improvements	–	(0.6)	**(0.3)**
Other assets	–	(0.7)	**(0.3)**
Impairment reversal/(loss recognised)	–	(268.4)	**52.8**

Due to the competitive and economic environment in which VM, S.A.R.L. operates in Mozambique, the Group assessed the assets for impairment in accordance with the requirements of IAS 36: Impairment of Assets. The recoverable amount of these assets was based on the fair value less cost of disposal at March 31, 2006 and 2005. The fair value of the assets was obtained from a knowledgeable, willing party on an arm's length basis, based on the assumption that the assets would be disposed of on an item by item basis. The amount with which the carrying amount exceeded the recoverable amount is recognised as an impairment loss. The reversal of the impairment loss related to an increase in the fair value of infrastructure assets.

	2004 Rm	2005 Rm	**2006 Rm**
4. PROFIT FROM OPERATIONS			
The profit from operations is arrived at after taking the following income/(expenditure) into account:			
Net (loss)/profit on disposal of property, plant and equipment	(6.8)	1.8	**(26.8)**
Loss on disposal of property, plant and equipment	(7.9)	(6.7)	**(27.5)**
Profit on disposal of property, plant and equipment	1.1	8.5	**0.7**
Depreciation of property, plant and equipment (Note 8)	(2,316.9)	(2,413.6)	**(2,651.6)**
Buildings	(17.6)	(18.7)	**(17.6)**
Infrastructure	(1,840.1)	(1,952.5)	**(2,530.0)**
Information services	(350.5)	(326.7)	**(41.9)**
Community services	(12.8)	(10.8)	**6.9**
Motor vehicles	(20.2)	(21.8)	**(13.6)**
Furniture	(17.7)	(15.6)	**(14.6)**
Office equipment	(11.3)	(11.2)	**(10.3)**
Leasehold improvements	(36.4)	(40.0)	**(22.0)**
Other assets	(10.3)	(16.3)	**(8.5)**
Auditors' remuneration – audit fees	(5.6)	(8.3)	**(14.9)**
Current year audit fees	(5.7)	(7.8)	**(14.0)**
Prior year (under)/over provision of audit fees	0.3	(0.1)	**(0.8)**
Telkom SA Limited foreign issuer costs	(6.8)	(4.6)	**(4.8)**
Recovered from Telkom SA Limited	6.8	4.6	**4.8**
Expenses	(0.2)	(0.4)	**(0.1)**
Auditors' remuneration – other services	(6.8)	(2.5)	**(2.1)**
For other services	(7.4)	(2.5)	**(2.1)**
Capitalised	0.6	–	**–**
Professional fees for consultancy services	(117.3)	(78.4)	**(112.2)**
Operating lease rentals	(532.8)	(613.1)	**(870.7)**
GSM transmission and data lines	(465.6)	(544.3)	**(787.9)**
Office accommodation	(35.6)	(43.4)	**(47.6)**
Other accommodation	(29.6)	(24.5)	**(33.0)**
Office equipment	(2.0)	(0.9)	**(1.1)**
Motor vehicles	–	–	**(1.1)**
Payment to other operators	(2,990.3)	(3,652.5)	**(4,634.3)**
Regulatory fees	(550.1)	(670.3)	**(812.2)**

		2004 Rm	2005 Rm	**2006 Rm**
4.	**PROFIT FROM OPERATIONS (continued)**			
	Staff expenses – pension and provident fund contributions	(71.8)	(74.9)	**(89.3)**
	Pension fund contributions	(65.9)	(70.7)	**(76.4)**
	Provident fund contributions	(5.9)	(4.2)	**(12.9)**
	(Increase)/Decrease in provision for obsolete inventory (Note 13)	(30.9)	17.5	**(15.9)**
	Decrease/(Increase) in provision for doubtful receivables (Note 14)	0.8	(11.3)	**6.0**
	Bad debts written off	(48.8)	(52.2)	**(42.3)**
	Impairment of assets (Note 3)	–	(268.4)	**52.8**

Insurance activities

The Group offers a range of insurance contracts to its customers providing protection against specified risks associated with the ownership of a cellphone. These products are offered through a cell captive facility maintained with Nova Risk Partners Limited, a South African registered short-term insurance company. The cell facility is further used to issue insurance contracts to Group companies to provide cover against a variety of insurable risks including assets own risk and the extended warranty provided to customers. These intercompany transactions are eliminated on consolidation of the cell captive.

In terms of the shareholder agreement, the Group carries all the risks and rewards related to the business underwritten in the cell captive facility. The risks are closely monitored by the Group through the ongoing review of the performance of the underlying insurance products. Premium rate adjustments are used to mitigate the associated insurance risks.

Provided below is a summarised underwriting account giving details of the R52.5 million (2005: R19.5 million; 2004: R32.6 million) underwriting profit included in profit from operations:

		2004 Rm	2005 Rm	**2006 Rm**
	Gross earned premiums	94.4	89.7	**112.7**
	Gross claims incurred	(32.9)	(45.6)	**(51.7)**
	Net reinsurance income/(expense)	(16.2)	(11.6)	**10.7**
	Net operating expenses	(12.7)	(13.0)	**(19.2)**
	Underwriting profit	32.6	19.5	**52.5**
5.	**INTEREST, DIVIDENDS AND OTHER FINANCIAL INCOME**			
	Banks and loans	68.4	93.6	**89.4**
	Dividends received – unlisted investments	5.4	–	**–**
	Guarantee fees	26.4	–	**–**
	Income from investments at fair value through profit and loss	11.2	8.0	**7.8**
	Other interest income	6.2	15.8	**19.7**
	Gain on foreign exchange contract revaluation	269.6	155.1	**211.2**
	Gain on foreign liability and asset revaluation	238.0	358.3	**314.0**
	Interest rate swap interest	5.1	11.6	**13.0**
	Interest rate swap revaluation	26.3	20.4	**4.2**
		656.6	662.8	**659.3**

	2004 Rm	2005 Rm	**2006 Rm**
6. FINANCE COSTS			
Bank overdraft	(27.3)	(39.1)	**(15.2)**
Finance leases	(130.1)	(127.3)	**(121.6)**
Funding loans	(64.4)	(32.2)	**(73.8)**
Interest on minority shareholder loan*	(7.6)	(7.2)	**(8.1)**
Leasehold property	(5.2)	–	**–**
Other finance costs	(13.3)	(24.2)	**(30.6)**
Shareholder loans	(47.2)	–	**–**
Interest rate swap interest	(1.1)	(5.5)	**–**
Interest rate swap revaluation	(18.9)	(11.3)	**(10.8)**
Loss on foreign exchange contract revaluation	(479.1)	(143.4)	**(471.8)**
Loss on foreign liability and asset revaluation	(313.3)	(251.5)	**(586.3)**
	(1,107.5)	(641.7)	**(1,318.2)**

** This amount of R8.1 million (2005: R7.2 million; 2004: R7.6 million) relates to notional interest on the loan from Caspian Construction Company Limited and Planetel Communications Limited, that was remeasured at amortised cost, at an effective interest rate of LIBOR plus 5%, for which no consideration has been recorded.*

	2004 Rm	2005 Rm	**2006 Rm**
7. TAXATION			
South African normal taxation	(1,702.6)	(2,082.6)	**(2,375.6)**
Current year	(1,716.4)	(2,091.3)	**(2,337.9)**
Prior year (under)/over provision	13.8	8.7	**(37.7)**
Deferred taxation	146.9	35.9	**(135.5)**
Current year	159.4	35.1	**(176.3)**
Prior year over/(under) provision	(12.5)	(6.3)	**40.8**
Taxation rate change*	–	7.1	**–**
Secondary taxation on companies – current year	(262.5)	(429.4)	**(562.5)**
Foreign taxation	(5.4)	(13.0)	**(24.6)**
Current year	(4.3)	(12.9)	**(24.2)**
Prior year under provision	(1.1)	(0.1)	**(0.4)**
Foreign deferred taxation	101.6	(123.9)	**20.4**
Current year	109.8	(75.2)	**43.5**
Prior year under provision	(8.2)	(48.7)	**(22.0)**
Taxation rate change#	–	–	**(1.1)**
	(1,722.0)	(2,613.0)	**(3,077.8)**

	2004 Rm	2004 %	2005 Rm	2005 %	**2006 Rm**	**2006 %**
7. TAXATION (continued)						
Reconciliation of rate of taxation						
Normal taxation on profit before taxation	1,432.3	30.0	1,949.8	30.0	**2,380.0**	**29.0**
Adjusted for:						
Exempt income	(0.8)	–	(0.1)	–	**(1.1)**	**–**
Disallowed expenditure	33.9	0.8	131.3	2.0	**135.6**	**1.7**
Goodwill	27.2	0.6	–	–	**–**	**–**
Prior year under/(over) provision	(8.0)	(0.2)	46.4	0.7	**19.3**	**0.2**
Unrecognised taxation asset	24.8	0.5	40.5	0.6	**162.8**	**2.0**
Utilisation of taxation loss	(75.3)	(1.6)	(12.6)	(0.1)	**(6.9)**	**(0.1)**
Foreign taxation rate differences	78.2	1.6	(30.8)	(0.5)	**(15.6)**	**(0.2)**
Taxation rate change#	–	–	(7.1)	(0.1)	**1.1**	**–**
Foreign taxation	–	–	5.7	0.1	**8.7**	**0.1**
Unrealised foreign exchange differences	–	–	(153.2)	(2.4)	**45.1**	**0.5**
Capital expenditure adjustment	–	–	80.7	1.2	**(181.6)**	**(2.2)**
Translation to US$	–	–	61.8	1.0	**(16.8)**	**(0.2)**
Impairment of assets	–	–	78.3	1.2	**(12.9)**	**(0.2)**
Secondary taxation on companies	262.5	5.5	429.4	6.6	**562.5**	**6.9**
Secondary taxation on companies credits	–	–	(3.8)	–	**–**	**–**
Utilisation of investment deductions	(24.1)	(0.5)	(10.2)	(0.2)	**0.2**	**–**
Utilisation of cumulative taxation differences	(28.7)	(0.6)	–	–	**–**	**–**
Other adjustments	–	–	6.9	0.1	**(2.6)**	**–**
	1,722.0	36.1	2,613.0	40.2	**3,077.8**	**37.5**

** Deferred taxation was calculated at 29% for all South African entities at March 31, 2005 following a change in the corporate taxation rate. The revised taxation rate was applicable to normal taxation from the 2006 financial year.*

 # Deferred taxation was calculated at 25% for Vodacom Lesotho (Proprietary) Limited at March 31, 2006 following a change in the corporate taxation rate. The revised taxation rate is applicable to normal taxation from the 2007 financial year.

	Cost	Accumulated depreciation and impairment	Net book value
	Rm	Rm	Rm
8. PROPERTY, PLANT AND EQUIPMENT			
2004			
Land and buildings	899.8	(68.4)	831.4
Infrastructure	16,738.5	(7,678.4)	9,060.1
Information services	2,359.6	(1,599.2)	760.4
Community services	90.7	(62.3)	28.4
Motor vehicles	128.9	(77.7)	51.2
Furniture	122.6	(84.4)	38.2
Office equipment	89.0	(66.6)	22.4
Leasehold improvements	247.3	(150.1)	97.2
Other assets	55.0	(31.8)	23.2
	20,731.4	(9,818.9)	10,912.5
2005			
Land and buildings	936.2	(87.4)	848.8
Infrastructure	18,902.5	(9,012.8)	9,889.7
Information services	1,678.0	(1,106.0)	572.0
Community services	91.9	(73.0)	18.9
Motor vehicles	158.1	(93.7)	64.4
Furniture	138.2	(102.2)	36.0
Office equipment	96.3	(78.1)	18.2
Leasehold improvements	294.6	(192.6)	102.0
Other assets	64.2	(37.3)	26.9
	22,360.0	(10,783.1)	11,576.9
2006			
Land and buildings	**1,033.9**	**(105.0)**	**928.9**
Infrastructure	**22,556.3**	**(10,925.7)**	**11,630.6**
Information services	**1,623.9**	**(1,100.4)**	**523.5**
Community services	**107.8**	**(65.9)**	**41.9**
Motor vehicles	**154.4**	**(90.8)**	**63.6**
Furniture	**142.5**	**(115.0)**	**27.5**
Office equipment	**108.8**	**(88.0)**	**20.8**
Leasehold improvements	**361.4**	**(214.9)**	**146.5**
Other assets	**33.2**	**(29.9)**	**3.3**
	26,122.2	**(12,735.6)**	**13,386.6**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings Rm	Infra-structure Rm	Infor-mation services Rm	Com-munity services Rm	Motor vehicles Rm	Furniture Rm	Office equip-ment Rm	Leasehold improve-ments Rm	Other assets Rm	Total Rm
Reconciliation 2004										
Opening balance	828.6	8,895.9	680.7	28.5	41.5	47.2	20.5	97.0	35.1	10,675.0
Additions	16.8	2,345.0	421.1	12.7	31.3	9.3	10.4	34.2	9.9	2,890.7
Disposals	0.1	(7.4)	(2.5)	–	(1.2)	(0.2)	(0.1)	(0.2)	(0.3)	(11.8)
Foreign currency translation	(1.6)	(295.6)	(27.5)	–	(2.0)	(1.3)	(0.5)	(1.9)	(0.3)	(330.7)
Depreciation	(17.6)	(1,840.1)	(350.5)	(12.8)	(20.2)	(17.7)	(11.3)	(36.4)	(10.3)	(2,316.9)
Business combinations	5.1	–	0.7	–	–	0.3	0.1	–	–	6.2
Asset category transfer	–	(37.7)	38.4	–	1.8	0.6	3.3	4.5	(10.9)	–
Closing balance	831.4	9,060.1	760.4	28.4	51.2	38.2	22.4	97.2	23.2	10,912.5
Reconciliation 2005										
Opening balance	831.4	9,060.1	760.4	28.4	51.2	38.2	22.4	97.2	23.2	10,912.5
Transfer to intangible assets (Note 10)	–	(371.0)	(324.6)	–	–	–	–	–	–	(695.6)
Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l.	4.5	457.9	115.4	–	4.0	2.9	1.9	7.7	2.0	596.3
Transfer from investment properties (Note 9)	9.9	–	–	–	–	–	–	–	–	9.9
Additions	21.7	2,781.7	371.5	1.3	35.2	11.8	5.6	37.9	21.7	3,288.4
Disposals	–	(10.8)	(3.0)	–	(2.2)	(0.3)	(0.3)	(0.2)	(1.5)	(18.3)
Foreign currency translation	–	60.5	3.5	–	0.4	0.3	–	–	(1.5)	63.2
Depreciation	(18.7)	(1,952.5)	(326.7)	(10.8)	(21.8)	(15.6)	(11.2)	(40.0)	(16.3)	(2,413.6)
Business combinations	–	–	4.9	–	–	–	0.1	–	–	5.0
Impairments (Note 3)	–	(142.3)	(23.3)	–	(2.4)	(1.3)	(0.3)	(0.6)	(0.7)	(170.9)
Asset category transfer	–	6.1	(6.1)	–	–	–	–	–	–	–
Closing balance	848.8	9,889.7	572.0	18.9	64.4	36.0	18.2	102.0	26.9	11,576.9
Reconciliation 2006										
Opening balance	**848.8**	**9,889.7**	**572.0**	**18.9**	**64.4**	**36.0**	**18.2**	**102.0**	**26.9**	**11,576.9**
Reclassified to finance lease receivables (Note 14)	**–**	**–**	**–**	**–**	**(12.0)**	**–**	**–**	**–**	**–**	**(12.0)**
Additions	**98.2**	**4,237.9**	**237.2**	**16.1**	**27.1**	**8.9**	**14.1**	**55.3**	**4.6**	**4,699.4**
Disposals	**–**	**(51.0)**	**(1.7)**	**–**	**(0.2)**	**–**	**(0.4)**	**(0.1)**	**(3.0)**	**(56.4)**
Foreign currency translation	**(0.5)**	**(246.0)**	**(3.8)**	**–**	**(1.8)**	**(0.9)**	**–**	**(0.9)**	**–**	**(253.9)**
Depreciation	**(17.6)**	**(2,530.0)**	**(41.9)**	**6.9**	**(13.6)**	**(14.6)**	**(10.3)**	**(22.0)**	**(8.5)**	**(2,651.6)**
Business combinations	**–**	**–**	**1.7**	**–**	**–**	**–**	**–**	**–**	**–**	**1.7**
Impairments (Note 3)	**–**	**59.9**	**(5.6)**	**–**	**(0.3)**	**(0.4)**	**(0.1)**	**(0.3)**	**(0.3)**	**52.9**
Transfer from intangible assets/asset category transfer (Note 10)	**–**	**270.1**	**(234.4)**	**–**	**–**	**(1.5)**	**(0.7)**	**12.5**	**(16.4)**	**29.6**
Closing balance	**928.9**	**11,630.6**	**523.5**	**41.9**	**63.6**	**27.5**	**20.8**	**146.5**	**3.3**	**13,386.6**

		2004 Net book value Rm	2005 Net book value Rm	**2006 Net book value Rm**
8.	**PROPERTY, PLANT AND EQUIPMENT (continued)**			
	Freehold land and buildings			
	Portions 859, 847, 839 and 828 of the farm Randjesfontein No. 405, Gauteng Province, RSA	35.0	37.5	**37.5**
	Holding 182, Erand Agricultural Holdings Ext 1, RSA	1.6	1.6	**1.6**
	Erf 200, Chelmsfordville, Pietermaritzburg, RSA	0.1	0.1	**0.1**
	Erf 1606, New Germany, Pietermaritzburg, RSA	0.5	0.5	**0.5**
	1046 Mama Yemo Avenue, Lubumbashi, Province De Katanga, Democratic Republic of Congo	0.5	0.9	**1.0**
	Kinshasa Building (Justice), 292 Justice Avenue, Gombe, Kinshasa, Democratic Republic of Congo	4.2	8.6	**8.3**
	MSC Building, Maseru West, Lesotho	0.7	0.7	**0.6**
	Stands 13, 14 and 15, Eastwood Road, Dunkeld West, RSA	5.0	14.4	**14.1**
	6195 Boulevard du 30 Juin, Kinshasa, Democratic Republic of Congo	–	7.6	**7.4**
	Portions 878 and 879 of the farm Randjesfontein No. 405, Gauteng Province, RSA	–	10.7	**52.5**
	Erf 2102, Silverton, Ext 54, RSA	–	–	**33.9**
	Portion 751 of the farm Randjesfontein No. 405, Gauteng Province, RSA	–	–	**14.6**
	Holding 191, Erand Agricultural Holdings Ext 1, RSA	–	–	**7.6**
		47.6	82.6	**179.7**
	Leasehold land and buildings			
	Portions 839, 828, 847 and 859 of the farm Randjesfontein No. 405, Gauteng Province, RSA	268.0	262.4	**256.8**
	Portion 769 of the farm Randjesfontein No. 405, RSA	159.5	156.8	**154.3**
	Stand 34083, Bellville, City of Tygerberg, RSA	106.3	104.7	**103.3**
	Erf 5259 and 5260, Montague Gardens, RSA	94.9	93.3	**91.8**
	Portion 748 of the farm Randjesfontein No. 405, Gauteng Province, RSA	87.2	85.5	**83.9**
	Portion 791 of the farm Randjesfontein No. 405, Gauteng Province, RSA	53.9	49.7	**45.9**
	Erf 33153 Bellville, Cape Town, RSA	10.3	10.1	**9.9**
	43 Kwale Road, Dar es Salaam, Tanzania	3.7	3.7	**3.3**
		783.8	766.2	**749.2**
	Total freehold and leasehold land and buildings	831.4	848.8	**928.9**

Debt is collateralised over leasehold land and buildings and the fair value of the lease liability is R911.5 million (2005: R956.8 million; 2004: R955.4 million).

A register with details of the cost price and date of acquisition of all land and buildings is available for inspection at the registered office.

Land and buildings in which the Group occupies more than 25% of the floor space or when the primary purpose is the service and connection of Vodacom customers, are classified as property, plant and equipment.

The Group adopted the revised IAS 16: Property, Plant and Equipment on April 1, 2005. The total adjustment was processed in the current year with the reversal in depreciation resulting in certain asset categories having negative depreciation charges in the current year. Refer Note 23.

During the current financial year, the Group reclassified Portion 791 of the farm Randjesfontein, No. 405, Gauteng Province, RSA, from investment property to property, plant and equipment. The property's primary purpose was deemed to have always been for the service and connection of Vodacom customers and not for capital appreciation or rental income. The restatement was processed retrospectively. Refer to Note 9 for information on investment properties.

8. PROPERTY, PLANT AND EQUIPMENT (continued)

In the 2006 financial year asset category transfers include transfers from software included in intangible assets to property, plant and equipment in Note 10 of R29.6 million. Refer to Note 23 for more information about the restatements relating to investment property and software.

The estimated useful lives of depreciable property, plant and equipment are as follows:

General purpose buildings	50 years
Special purpose buildings	15 years
Infrastructure	
– Radio	1 – 10 years
– Intelligent Networks	5 – 8 years
– Switching	5 – 10 years
– Transmission	8 years
– Billing	5 – 6 years
– Value-added services equipment	3 – 8 years
Community services	
– Containers	2 – 10 years
– Cellular equipment	2 years
Information services	3 – 5 years
SIM centre	3 – 8 years
Office automation	3 – 5 years
Other assets	
– Motor vehicles	4 years
– Furniture and fittings	5 years
– Office equipment	4 years

	2004 Rm	2005 Rm	**2006 Rm**
9. INVESTMENT PROPERTIES			
Reconciliation			
Opening balance	–	9.9	**–**
Transfer to property, plant and equipment (Note 8)	–	(9.9)	**–**
Business combination	9.9	–	**–**
Closing balance	9.9	–	**–**

	Cost Rm	Accumulated depreciation Rm	Net book value Rm
2004			
Stands 13 and 14 Dunkeld West, RSA (Note 9.1)	9.9	–	9.9

9.1 Stands 13 and 14 Dunkeld West, RSA

The Group acquired these properties recorded at R9.9 million on March 1, 2004 through its equity investment in Smartphone SP (Proprietary) Limited.

During the March 31, 2005 financial year the properties were transferred to property, plant and equipment as the majority of the premises were no longer being leased to third parties.

9.2 Other

Refer Note 8 for information regarding the investment property reclassification to property, plant and equipment during the current financial year.

	Cost	Accumulated amortisation and impairment	Net book value
	Rm	Rm	Rm
10. INTANGIBLE ASSETS			
2004			
Goodwill	855.7	(511.4)	344.3
Licences	262.0	(80.4)	181.6
Trademarks	209.7	(36.2)	173.5
Customer bases	724.3	(421.0)	303.3
Computer software	*	*	*
	2,051.7	(1,049.0)	1,002.7
2005			
Goodwill	932.1	(518.6)	413.5
Licences	338.0	(211.4)	126.6
Trademarks	209.7	(78.8)	130.9
Customer bases	863.2	(593.4)	269.8
Computer software	2,123.3	(1,419.8)	703.5
	4,466.3	(2,822.0)	1,644.3
2006			
Goodwill	**1,002.0**	**(518.1)**	**483.9**
Licences	**306.3**	**(186.6)**	**119.7**
Trademarks	**390.4**	**(132.5)**	**257.9**
Customer bases	**863.2**	**(700.3)**	**162.9**
Computer software	**2,375.6**	**(1,445.1)**	**930.5**
	4,937.5	**(2,982.6)**	**1,954.9**

** Refer Note 10 regarding information on the software reclassification.*

	Goodwill Rm	Licences Rm	Trademarks Rm	Customer bases Rm	Computer software Rm	Total Rm
10. INTANGIBLE ASSETS (continued)						
Reconciliation 2004						
Opening balance	230.9	117.0	22.6	165.0	–	535.5
Additions	–	114.1	–	7.0	–	121.1
Foreign currency translation	(17.0)	(34.7)	–	–	–	(51.7)
Amortisation	(93.6)	(14.8)	(7.3)	(99.1)	–	(214.8)
Business combinations	224.0	–	158.2	230.4	–	612.6
Closing balance	344.3	181.6	173.5	303.3	–	1,002.7
Reconciliation 2005						
Opening balance	344.3	181.6	173.5	303.3	–	1,002.7
Transfer from property, plant and equipment (Note 8)	–	–	–	–	695.6	695.6
Additions	–	–	–	–	205.4	205.4
Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l. (Note 30)	51.3	50.6	–	–	–	101.9
Foreign currency translation	(0.8)	9.0	–	–	–	8.2
Amortisation	–	(17.1)	(42.6)	(172.4)	(197.5)	(429.6)
Business combinations	18.7	–	–	138.9	–	157.6
Impairments (Note 3)	–	(97.5)	–	–	–	(97.5)
Closing balance	413.5	126.6	130.9	269.8	703.5	1,644.3
Reconciliation 2006						
Opening balance	**413.5**	**126.6**	**130.9**	**269.8**	**703.5**	**1,644.3**
Additions	**–**	**3.3**	**–**	**–**	**438.8**	**442.1**
Contingent purchase consideration (Note 29.1)	**36.2**	**–**	**–**	**–**	**–**	**36.2**
Transfer to property, plant and equipment (Note 8)	**–**	**–**	**–**	**–**	**(29.6)**	**(29.6)**
Disposals	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**
Foreign currency translation	**(1.4)**	**(1.7)**	**–**	**–**	**(4.0)**	**(7.1)**
Amortisation	**–**	**(8.5)**	**(52.3)**	**(106.9)**	**(176.5)**	**(344.2)**
Business combinations	**35.6**	**–**	**179.3**	**–**	**–**	**214.9**
Impairments (Note 3)	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Closing balance	**483.9**	**119.7**	**257.9**	**162.9**	**930.5**	**1,954.9**

10. INTANGIBLE ASSETS (continued)

Software that does not form an integral part of hardware was previously included in property, plant and equipment. The Group reclassified this software to intangible assets under the requirements of IAS 38: Intangible Assets during the 2006 financial year when the Group adopted the revised IAS 16: Property, Plant and Equipment. The reclassification was done retrospectively from April 1, 2004. The composition of the 2004 amounts has not been restated by the Group, after making every reasonable effort to determine these amounts. Also refer Note 23 regarding change in accounting policies, reclassifications and restatements.

The estimated useful lives of intangible assets are currently as follows:

– Mobile licences	5 – 30 years
– Contract mobile customers	5 years
– Prepaid mobile customers	36 – 43 months
– Trademarks	5 – 15 years
– Computer software	2 – 8 years

	2004 Short-term portion Rm	2004 Long-term portion Rm	2004 Total Rm	2005 Short-term portion Rm	2005 Long-term portion Rm	2005 Total Rm
11. FINANCIAL ASSETS						
Loans and receivables (Note 11.1)	229.2	94.0	323.2	–	93.3	93.3
Investments at fair value through profit and loss (Note 11.2)	70.8	9.3	80.1	101.1	–	101.1
Available-for-sale investments (Note 11.3)	16.5	119.1	135.6	16.8	–	16.8
Derivative financial assets (Note 11.4)	37.8	–	37.8	69.2	–	69.2
	354.3	222.4	576.7	187.1	93.3	280.4

	2006 Short-term portion Rm	**2006 Long-term portion Rm**	**2006 Total Rm**
Loans and receivables (Note 11.1)	**–**	**92.1**	**92.1**
Investments at fair value through profit and loss (Note 11.2)	**111.7**	**–**	**111.7**
Derivative financial assets (Note 11.4)	**37.6**	**–**	**37.6**
	149.3	**92.1**	**241.4**

	2004 Rm	2005 Rm	**2006 Rm**
11. FINANCIAL ASSETS (continued)			
11.1 Loans and receivables			
Planetel Communications Limited	43.0	42.7	**42.1**
The loan with a nominal value of US$6.8 million issued during the 2003 year, bears interest at LIBOR plus 5%. Planetel Communications Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding (Note 19).			
Caspian Construction Company Limited	51.0	50.6	**50.0**
The loan with a nominal value of US$8.1 million issued during the 2003 year, bears interest at LIBOR plus 5%. Caspian Construction Company Limited utilised this loan to ensure sufficient shareholder loan funding by itself as a shareholder of Vodacom Tanzania Limited. The loans and capitalised interest are collateralised by cession over all shareholder distributions and a pledge over their shares of Vodacom Tanzania Limited. All the shareholders subordinated their loans to Vodacom Tanzania Limited for the duration of the project finance funding (Note 19).			
ABSA Bank Limited	78.3	–	**–**
The Group's share of Vodacom Congo (RDC) s.p.r.l.'s deposit account amounted to 10.1 million at March 31, 2004, which was charged as security for the extended credit facility of Vodacom Congo (RDC) s.p.r.l. The deposit bore interest at EURIBOR less 0.2%. The deposit was refunded when the facility was replaced by a medium-term loan from Standard Bank London and RMB International (Dublin) Limited on July 30, 2004 (Note 19).			
Vodacom Congo (RDC) s.p.r.l.	150.9	–	**–**
The joint venture partner's share of the loan issued by Vodacom International Limited to Vodacom Congo (RDC) s.p.r.l. amounted to US$23.9 million at March 31, 2004. The loan bore interest at LIBOR plus 6.5%. With effect from April 1, 2004 the Group's effective control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date.			
	323.2	93.3	**92.1**
Less: Short-term portion of loans and receivables			
ABSA Bank Limited	(78.3)	–	**–**
Vodacom Congo (RDC) s.p.r.l.	(150.9)	–	**–**
Short-term portion of loans and receivables	(229.2)	–	**–**
Long-term portion of loans and receivables	94.0	93.3	**92.1**

11. FINANCIAL ASSETS (continued)

11.2 Investments at fair value through profit and loss

11.2.1 Investments held for trading

	Maturity period	Interest rate (%)	Market value Rm
2004			
Details of the maturity periods and interest rates of the money market investments at year-end are as follows:	0 – 6 months	7.2 – 12.1	70.8
	Over 12 months	8.1 – 8.8	9.3
			80.1
Less: Short-term portion of investments held for trading			(70.8)
Long-term portion of investments held for trading			9.3
2005			
Details of the maturity periods and interest rates of the money market investments at year-end are as follows:	0 – 12 months	7.3 – 8.5	101.1
Less: Short-term portion of investments held for trading			(101.1)
Long-term portion of investments held for trading			–
2006			
Details of the maturity periods and interest rates of the money market investments at year-end are as follows:	0 – 12 months	5.6 – 7.3	**111.7**
Less: Short-term portion of investments held for trading			**(111.7)**
Long-term portion of investments held for trading			**–**

		2004 Rm	2005 Rm	**2006 Rm**
11.	**FINANCIAL ASSETS (continued)**			
11.3	**Available-for-sale investments**			
	Listed investment – SAGE shares	16.5	16.8	**–**
	9 090 909 ordinary shares of R0.01 each.			
	Unlisted preference shares in Vodacom Congo (RDC) s.p.r.l.	119.1	–	**–**
	18 860 100 preference shares of US$1.0 each totalling US$18.9 million at March 31, 2004. The preference shares bore interest at a rate of 4% per annum and are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding. With effect from April 1, 2004 the Group's control over the company changed resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a subsidiary from this date.			
		135.6	16.8	**–**
	Short-term portion of available-for-sale Listed investment – SAGE shares	(16.5)	(16.8)	**–**
	Short-term portion of available-for-sale	(16.5)	(16.8)	**–**
	Long-term portion of available-for-sale	119.1	–	**–**
11.4	**Derivative financial assets**			
	Interest rate swap asset (Note 39)	35.9	44.2	**37.6**
	Foreign currency derivative asset (Note 39)	1.9	25.0	**–**
		37.8	69.2	**37.6**

		2007 Rm	2008 Rm	2009 Rm	2010 Rm	2011 Rm	2012 onwards Rm	Total Rm
11.5	**Maturity of financial assets**							
	Loans and receivables	–	–	–	–	–	92.1	92.1
	Investments at fair value through profit and loss	111.7	–	–	–	–	–	111.7
	Derivative financial assets	37.6	–	–	–	–	–	37.6
		149.3	–	–	–	–	92.1	241.4

The fair value of the Group's investments is R241.4 million (2005: R280.4 million; 2004: R576.7 million).

		2004 Rm	2005 Rm	**2006 Rm**
12.	**DEFERRED TAXATION**			
	Deferred taxation assets	277.8	308.1	**297.6**
	Deferred taxation liabilities	(410.1)	(472.1)	**(602.3)**
		(132.3)	(164.0)	**(304.7)**
12.1	**Components**			
	Capital allowances	(959.6)	(1,086.6)	**(1,243.6)**
	Foreign equity revaluation reserve	12.0	12.0	**12.0**
	Remeasurement of shareholder loans liability	(33.0)	(21.7)	**(19.5)**
	Remeasurement of shareholder loans asset	42.1	36.4	**32.5**
	Taxation losses	323.5	278.8	**223.1**
	Provisions and deferred income	861.5	634.1	**797.2**
	Prepayments and other allowances	(255.8)	(24.2)	**10.8**
	Customer base	(88.9)	(77.0)	**(46.7)**
	Trademark and patent	(46.5)	(33.4)	**(56.4)**
	Fair value adjustment of property	(2.2)	(2.2)	**(2.0)**
	Foreign exchange	22.2	88.9	**(22.3)**
	Secondary taxation on companies credits	–	3.8	**3.8**
	Other	(7.6)	27.1	**6.4**
		(132.3)	(164.0)	**(304.7)**
12.2	**Reconciliation**			
	Balance at the beginning of the year	(265.5)	(132.3)	**(164.0)**
	Deferred taxation – Income statement (expense)/income (Note 8)	248.5	(88.0)	**(115.1)**
	Foreign equity revaluation reserve	10.9	–	**–**
	Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l.	–	96.3	**–**
	Business combinations			
	Acquisition of customer base	(69.1)	(41.7)	**–**
	Acquisition of trademark and patents	(47.5)	–	**(35.8)**
	Acquisition of subsidiary	–	1.7	**–**
	Fair value adjustment of property	(2.2)	–	**–**
	Foreign exchange differences on consolidation of foreign subsidiaries	(7.4)	–	**10.2**
	Balance at the end of the year	(132.3)	(164.0)	**(304.7)**

Provision for taxation, which could arise if undistributed retained profit of certain subsidiaries is remitted, is only made where a decision has been taken to remit such retained profits. The Group did not provide for secondary taxation on companies (“STC”) on its undistributable earnings which is payable when it declares dividends to its shareholders, as the taxation will only be payable once the dividends are declared.

	2004 Rm	2005 Rm	**2006 Rm**
12. DEFERRED TAXATION (continued)			
12.3 Utilisation of taxation losses			
Opening taxation loss	1,119.3	1,187.1	**1,194.8**
Foreign exchange movement on opening taxation loss	(231.6)	(8.1)	**(142.3)**
Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l.	–	158.0	**–**
Prior year over/(under) statement	(134.5)	72.9	**24.3**
Current year taxation loss created/(utilised)	433.9	(215.1)	**461.9**
Closing taxation loss	1,187.1	1,194.8	**1,538.7**
Utilised to reduce net deferred taxation liability	(1,022.1)	(839.6)	**(662.3)**
Deferred taxation at 40%	(165.6)	(268.7)	**(244.1)**
Deferred taxation at 35%	(6.6)	–	**–**
Deferred taxation at 30%	(849.9)	(570.9)	**(418.2)**
Taxation losses available to reduce deferred taxation	165.0	355.2	**876.4**

There are unused taxation losses to the value of R876.4 million (2005: R355.2 million; 2004: R165.0 million) available to reduce the net deferred taxation liability. The effect of this would be a R279.4 million (2005: R109.3 million; 2004: R24.8 million) reduction in the net deferred taxation liability for the year to R25.3 million (2005: R54.7 million; 2004: R107.5 million). During 2003 uncertainty existed as to whether the accumulated losses incurred by Vodacom Congo (RDC) s.p.r.l. during their taxation holiday period will be available to reduce future taxable profits after expiry of the taxation holiday period, and therefore no deferred taxation asset was raised. During the 2004 financial year it was confirmed by the local taxation authority that the accumulated taxation losses will still be available after expiry of the taxation holiday, resulting in the accumulated taxation asset being recognised. Vodacom Congo (RDC) s.p.r.l. has recorded a deferred taxation asset as the company is generating taxable income. The Group has performed a detailed calculation of future taxable income to support the recognition of the deferred taxation asset.

The growth of the Group following its geographical expansion into other African countries over the past few years has made the estimation and judgement more challenging. The resolution of taxation issues is not always within the control of the Group and it is often dependant on the efficiency of the legal processes in the relevant taxation jurisdictions in which the Group operates. Issues can, and therefore often do, take many years to resolve. Payments in respect of taxation liabilities for an accounting period results from payments on account and on the final resolution of open items. As a result there can be substantial differences between the taxation charge in the consolidated income statement and taxation payments.

		2004 Rm	2005 Rm	**2006 Rm**
13.	**INVENTORY**			
	Merchandise	260.4	438.4	**397.5**
	Other inventory	28.1	41.1	**56.8**
		288.5	479.5	**454.3**
	Inventory carried at net realisable value	202.7	289.8	**215.1**
13.1	**Inventory valuation allowance included above**			
	Balance at the beginning of the year	(48.3)	(78.9)	**(62.8)**
	Foreign exchange movement on opening balance	0.3	–	**0.7**
	(Charged to)/Reversed from costs and expenses	(30.9)	17.5	**(15.9)**
	Business combinations	–	(1.4)	**–**
	Balance at the end of the year	(78.9)	(62.8)	**(78.0)**
14.	**TRADE AND OTHER RECEIVABLES**			
	Trade receivables	3,072.4	3,316.5	**4,097.2**
	Prepayments	240.6	185.3	**205.2**
	Value added taxation	58.5	69.0	**88.1**
	Interest income receivable	18.9	35.7	**41.5**
	Guarantee fees receivable	13.1	–	**–**
	Finance leases	–	–	**13.1**
	Other	46.5	14.9	**42.0**
		3,450.0	3,621.4	**4,487.1**
14.1	**Doubtful receivable allowance included above**			
	Balance at the beginning of the year	(82.6)	(75.6)	**(94.0)**
	Foreign exchange movement on opening balance	6.2	(0.2)	**2.9**
	Reversed from/(Charged to) costs and expenses	0.8	(11.3)	**6.0**
	Business combinations	–	(6.9)	**–**
	Balance at the end of the year	(75.6)	(94.0)	**(85.1)**

		Within one year Rm	Between two and five years Rm	After five years Rm	Total Rm
14.2	**Finance leases**				
	Staff benefits	7.5	2.9	–	10.4
	Computers	5.6	3.3	–	8.9
		13.1	6.2	–	19.3

14. TRADE AND OTHER RECEIVABLES (continued)

14.2 Finance leases (continued)

The Group provides motor vehicles to certain of its executives for their use. These executives may retain these assets at the end of the lease period, normally between three and four years. In terms of IAS 19: Employee benefits, these arrangements are regarded as finance leases and the cost of the assets are capitalised as finance lease receivables and amortised on a straight-line basis over the period of the use agreement to employee cost. The implicit interest rate is zero. The Group reclassified these assets from property, plant and equipment in terms of IFRIC 4: Determining whether an arrangement contains a lease. Prior years have not been restated due to amounts being insignificant.

The Group provides laptop or desktop computers to certain subscribers who enter into contract agreements. The customer retain these computers at the end of the contract period. In terms of IAS 17: Leases, these arrangements are regarded as finance leases and accounted for, using the effective interest rate method.

The long-term portion of R6.2 million is reflected as part of lease assets on the face of the consolidated balance sheet.

	2004 R	2005 R	**2006** **R**
15. ORDINARY SHARE CAPITAL			
Authorised			
100,000 ordinary shares of 1 cent each	1,000	1,000	**1,000**
Issued			
10,000 ordinary shares of 1 cent each	100	100	**100**

Unissued share capital is not under the control of the Board of Directors.

	2004 Rm	2005 Rm	**2006** **Rm**
16. NON-DISTRIBUTABLE RESERVES			
Foreign currency translation reserve (Note 16.1)	(347.2)	(321.5)	**(203.8)**
Deferred taxation on foreign currency translation reserve (Note 16.1)	12.0	12.0	**12.0**
Contingency reserve (Note 16.2)	10.3	11.3	**13.5**
Revaluation of available-for-sale investments (Note 16.3)	–	0.2	**–**
	(324.9)	(298.0)	**(178.3)**
Reconciliation			
Balance at the beginning of the year	(141.0)	(324.9)	**(298.0)**
Foreign currency translation reserve	(183.1)	25.7	**117.7**
Acquisition of Vodacom Congo (RDC) s.p.r.l. (Note 30)	–	82.1	**–**
Foreign currency translation for the year	(194.0)	(56.4)	**117.7**
Deferred taxation for the year	10.9	–	**–**
Other non-distributable reserves			
Transferred from distributable reserves – contingency reserve	(0.8)	1.0	**2.2**
Revaluation of available-for-sale investments	–	0.2	**(0.2)**
Balance at the end of the year	(324.9)	(298.0)	**(178.3)**

16. NON-DISTRIBUTABLE RESERVES (continued)

16.1 Foreign currency translation reserve and deferred taxation

The financial results of foreign operations are translated into South African Rands for incorporation into the consolidated results. Assets and liabilities are translated at the foreign exchange rates ruling at balance sheet date. Income, expenditure and cash flow items are translated at the actual foreign exchange rate or average foreign exchange rates for the period. All resulting unrealised foreign exchange differences are classified as equity.

This reserve also includes gains and losses on the translation of equity loans to foreign entities that are intended to be permanent and only if the loans are denominated in one of the entities' functional currencies.

Deferred taxation on the foreign currency translation reserve relates only to the translation of equity loans advanced to foreign subsidiaries.

16.2 Contingency reserve

In terms of the Short-term Insurance Act, 1998 the Group's cell captive partner, Nova Risk Partners Limited is required to raise a contingency reserve equal to 10% of premiums written less approved reinsurance (as defined in the act). This reserve can be utilised only with the prior permission of the Registrar of Short-term Insurance.

16.3 Revaluation of available-for-sale investments

Gains and losses from changes in the fair value of available-for-sale investments are recognised directly in equity until the financial asset is disposed of (Note 11.3).

	2004 Rm	2005 Rm	**2006** **Rm**
17. MINORITY INTERESTS			
Distributable reserves	150.7	187.8	**358.1**
Non-distributable reserves	(57.7)	(59.1)	**(74.8)**
	93.0	128.7	**283.3**
Reconciliation			
Balance at the beginning of the year	88.0	93.0	**128.7**
Profit transferred from distributable reserves	26.2	30.8	**116.7**
Foreign currency translation reserve	(21.2)	(1.5)	**(15.6)**
Revaluation of available-for-sale investments	–	0.1	**(0.1)**
Acquisition of subsidiary	–	10.1	**46.5**
Minority shares of VM, S.A.R.L.	–	–	**8.0**
Dividend	–	(3.8)	**(0.9)**
Balance at the end of the year	93.0	128.7	**283.3**

		2004 Rm	2005 Rm	**2006 Rm**
18.	**STATEMENT OF RECOGNISED INCOME AND EXPENSES**			
	(Loss)/Gain on revaluation of available-for-sale investment	–	0.3	**(0.3)**
	Foreign currency translation reserve	(215.2)	(57.9)	**102.1**
	Tax on items taken directly to equity	10.9	–	**–**
	Net profit/(loss) recognised directly in equity	(204.3)	(57.6)	**101.8**
	Net profit for the year	3,052.3	3,886.3	**5,129.0**
	Total recognised income and expense for the year	2,848.0	3,828.7	**5,230.8**
	Attributable to:			
	Equity shareholders	2,843.0	3,799.3	**5,129.8**
	Minority interests	5.0	29.4	**101.0**

		2004 Short-term portion Rm	2004 Long-term portion Rm	2004 Total Rm	2005 Short-term portion Rm	2005 Long-term portion Rm	2005 Total Rm
19.	**INTEREST-BEARING DEBT**						
	Finance leases (Note 19.1)	29.0	856.7	885.7	50.5	807.2	857.7
	Funding loans (Note 19.2)	807.7	359.9	1,167.6	323.7	1,406.3	1,730.0
	Other short-term loans (Note 19.3)	3.2	–	3.2	7.4	–	7.4
		839.9	1,216.6	2,056.5	381.6	2,213.5	2,595.1

	2006 Short-term portion Rm	**2006 Long-term portion Rm**	**2006 Total Rm**
Finance leases (Note 19.1)	**79.2**	**728.3**	**807.5**
Funding loans (Note 19.2)	**1,527.3**	**90.9**	**1,618.2**
Other short-term loans (Note 19.3)	**39.0**	**–**	**39.0**
	1,645.5	**819.2**	**2,464.7**

	2004 Rm	2005 Rm	**2006 Rm**
19. INTEREST-BEARING DEBT (continued)			
19.1 Finance leases			
Vodacom (Proprietary) Limited	596.4	574.9	**537.7**
The finance leases are collateralised by various land and buildings with a book value of R489.1 million (2005: R500.1 million; 2004: R512.1 million), bearing interest at fixed effective interest rates of between 12.1% and 16.9% per annum and are repayable between 2 and 7 years.			
Vodacom Service Provider Company (Proprietary) Limited	289.3	282.8	**269.8**
The finance lease is collateralised by land and buildings with a book value of R256.8 million (2005: R262.4 million; 2004: R268.0 million), and bearing interest at a fixed effective interest rate of 14.8% per annum. Payments are made every six months in arrears and commenced on March 1, 2002. The finance lease expires on September 1, 2011.			
	885.7	857.7	**807.5**
Less: Short-term portion of finance leases			
Vodacom (Proprietary) Limited	(22.5)	(37.6)	**(58.3)**
Vodacom Service Provider Company (Proprietary) Limited	(6.5)	(12.9)	**(20.9)**
Short-term portion of finance leases	(29.0)	(50.5)	**(79.2)**
Long-term portion of finance leases	856.7	807.2	**728.3**

The fair value of the Group's finance lease liability is R911.5 million (2005: R956.8 million; 2004: R955.4 million).

Repayment of finance leases:

	2007 Rm	2008 Rm	2009 Rm	2010 Rm	2011 Rm	2012 onwards Rm	Total Rm
Future minimum lease payments	190.7	211.7	269.2	153.6	200.6	180.4	1,206.2
Finance costs	(111.5)	(98.2)	(77.0)	(55.0)	(38.9)	(18.1)	(398.7)
Net present value	79.2	113.5	192.2	98.6	161.7	162.3	807.5

	2004 Rm	2005 Rm	**2006 Rm**
19. INTEREST-BEARING DEBT (continued)			
19.2 Funding loans			
Planetel Communications Limited	35.4	38.5	**41.6**
The shareholder loan of US$8.4 million (2005: US$8.4 million; 2004: US$8.4 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. The loan became non interest-bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 11) during the 2003 financial year. The gain on re-measurement was included in equity.			
Caspian Construction Company Limited	42.1	45.7	**49.3**
The shareholder loan of US$10.0 million (2005: US$10.0 million; 2004: US$10.0 million) is subordinated for the duration of the project finance funding period of Vodacom Tanzania Limited, bears no interest from April 1, 2002 and is thereafter available for repayment, by approval of at least 60% of the shareholders of Vodacom Tanzania Limited. This loan became non interest-bearing and was remeasured at amortised cost at an effective interest rate of LIBOR plus 5% (Note 11) during the 2003 financial year. The gain on remeasurement was included in equity.			
Project finance funding to Vodacom Tanzania Limited	348.7	285.1	**184.0**
The drawn down portions of the project finance funding from external parties include the following: (a) Netherlands Development Finance Company of US$7.6 million (2005: US$10.1 million; 2004: US$11.3 million); (b) Deutsche Investitions- und Entwicklungsgesellschaft mbH of €7.8 million (2005: €10.4 million; 2004:€11.5 million); (c) Standard Corporate and Merchant Bank of US$8.0 million (2005: US$12.0 million; 2004: US$16.0 million); (d) Barclays Bank (Local Syndicate Tanzania) of TSH5,703.8 million (2005: TSH10,968.8 million; 2004: TSH15,356.3 million).			
The funding is collateralised by a charge over 51% of the shares, the licence and Vodacom Tanzania Limited's tangible and intangible assets. The loans bear interest based upon the foreign currency denomination of the project financing between 6.0% and 14.5% per annum and will be fully repaid by March 2008. The full amount of R184.0 million has been classified as current liabilities due to the Group not having an unconditional right to defer its settlement for at least 12 months after the balance sheet date.			
Balance carried forward	426.2	369.3	**274.9**

		2004 Rm	2005 Rm	**2006 Rm**
19.	**INTEREST-BEARING DEBT (continued)**			
19.2	**Funding loans (continued)**			
	Balance brought forward	426.2	369.3	**274.9**
	Extended credit facility to Vodacom Congo (RDC) s.p.r.l.	310.1	–	**–**
	The Group's share of Vodacom Congo (RDC) s.p.r.l.'s extended credit facility amounted to €38.8 million at March 31, 2004 which was partially collateralised by guarantees (Note 41) and a cash deposit (Note 11), and bore interest at a rate of between EURIBOR plus 1.5% and EURIBOR plus 1.75%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
	Revolving credit facilities to Vodacom Congo (RDC) s.p.r.l.	312.2	–	**–**
	The Group's share of the short-term revolving credit facility provided by ABSA amounted to US$16.3 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group, which bore interest at an effective interest rate of LIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
	The Group's share of the short-term Euro revolving credit facility provided by Standard Finance (Isle of Man) Limited amounted to €11.5 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group and bore interest at an effective interest rate of EURIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
	The Group's share of the short-term Dollar revolving credit facility provided by Standard Finance (Isle of Man) Limited amounted to US$19.1 million at March 31, 2004. The credit facility was collateralised by guarantees (Note 41) provided by the Group and bore interest at an effective interest rate of LIBOR plus 1.5%. The facility was replaced by a medium-term loan from Standard Bank London Limited and RMB International (Dublin) Limited on July 30, 2004.			
	Medium-term loan to Vodacom International Limited	–	1,128.8	**1,114.4**
	The medium-term loan provided by Standard Bank London Limited and RMB International (Dublin) Limited that amounts to US$180.0 million (2005: US$180.0 million) is collateralised by guarantees provided by the Group. The loan is repayable on July 19, 2006 and bears interest at an effective interest rate of LIBOR plus 0.6%.			
	Balance carried forward	1,048.5	1,498.1	**1,389.3**

	2004 Rm	2005 Rm	**2006 Rm**
19. INTEREST-BEARING DEBT (continued)			
19.2 Funding loans (continued)			
Balance brought forward	1,048.5	1,498.1	**1,389.3**
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	119.1	231.9	**228.9**
The preference shares of US$37.0 million (2005: US$37.0 million; 2004: US$18.9 million) bear interest at a rate of 4% per annum. The preference shares are redeemable, but only after the first three years from date of inception and only on the basis that the shareholders are repaid simultaneously and in proportion to their shareholding.			
	1,167.6	1,730.0	**1,618.2**
Less: Short-term portion of funding loans			
Project finance funding to Vodacom Tanzania Limited	(66.3)	(91.8)	**(184.0)**
Extended credit facility to Vodacom Congo (RDC) s.p.r.l.	(310.1)	–	**–**
Revolving credit facilities to Vodacom Congo (RDC) s.p.r.l.	(312.2)	–	**–**
Medium-term loan to Vodacom International Limited	–	–	**(1,114.4)**
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	(119.1)	(231.9)	**(228.9)**
Short-term portion of funding loans	(807.7)	(323.7)	**(1,527.3)**
Long-term portion of funding loans	359.9	1,406.3	**90.9**

The fair value of the Group's funding loan liability is R1,618.2 million (2005: R1,730.0 million; 2004: R1,167.6 million).

	2004 Rm	2005 Rm	**2006 Rm**
19.3 Other short-term loans			
Vodacom Congo (RDC) s.p.r.l.	3.2	6.3	**37.1**
The short-term facilities amounts to US$6.0 million (2005: US$1.0 million; 2004: US$0.5 million). US$1.0 million of these facilities bears interest at 18% per annum with no fixed repayment terms. US$5.0 million of these facilities is repayable on May 20, 2006 and bears interest at LIBOR plus 6% per annum.			
Other	–	1.1	**1.9**
	3.2	7.4	**39.0**

The fair value of the Group's short-term loans is R39.0 million (2005: R7.4 million; 2004: R3.2 million).

19. INTEREST-BEARING DEBT (continued)

19.4 Repayment of interest-bearing debt

	2007 Rm	2008 Rm	2009 Rm	2010 Rm	2011 Rm	2012 onwards Rm	Total Rm
Finance leases							
Vodacom (Proprietary) Limited	58.3	82.9	149.6	41.5	86.9	118.5	537.7
Vodacom Service Provider Company (Proprietary) Limited	20.9	30.6	42.6	57.1	74.8	43.8	269.8
Funding loans							
Planetel Communications Limited	–	–	–	–	–	41.6	41.6
Caspian Construction Company Limited	–	–	–	–	–	49.3	49.3
Project finance funding to Vodacom Tanzania Limited	184.0	–	–	–	–	–	184.0
Medium-term loan to Vodacom International Limited	1,114.4	–	–	–	–	–	1,114.4
Preference shares issued by Vodacom Congo (RDC) s.p.r.l.	228.9	–	–	–	–	–	228.9
Other short-term loans	39.0	–	–	–	–	–	39.0
	1,645.5	113.5	192.2	98.6	161.7	253.2	2,464.7

	2004 Rm	2005 Rm	**2006** **Rm**
20. TRADE AND OTHER PAYABLES			
Trade payables	2,900.9	3,466.8	**3,315.4**
Capital expenditure creditors	774.4	1,089.9	**1,478.7**
Value added taxation	101.6	91.6	**100.3**
Sundry accruals	43.0	75.4	**89.4**
Revenue charged in advance	28.0	67.2	**64.2**
Interest accrual	14.2	39.9	**56.7**
	3,862.1	4,830.8	**5,104.7**

	2004 Rm	2005 Rm	**2006 Rm**
21. NON INTEREST-BEARING DEBT			
Sekhametsi Investment Consortium	4.3	4.3	**4.3**
The minority shareholders' loan is uncollateralised and no repayment terms have been determined.			
	4.3	4.3	**4.3**

The fair value of the Group's non interest-bearing debt liabilities could not be readily determined.

	2004 Rm	2005 Rm	**2006 Rm**
22. PROVISIONS			
Deferred bonus incentive provision (Note 22.1)	359.5	423.9	**452.4**
Bonus provision (Note 22.2)	149.1	203.1	**279.8**
Leave pay provision (Note 22.3)	53.9	58.3	**70.8**
Warranty provision (Note 22.4)	34.3	28.2	**32.8**
Long-term incentive provision (Note 22.5)	–	–	**122.1**
Other (Note 22.6)	55.3	65.9	**37.4**
	652.1	779.4	**995.3**

	Deferred bonus incentive provision Rm	Bonus provision Rm	Leave pay provision Rm	Warranty provision Rm	Long-term incentive provision Rm	Other Rm
Reconciliation 2004						
Balance at the beginning of the year	231.7	128.8	52.4	9.5	–	58.3
Provision created	169.5	165.7	10.1	28.9	–	67.5
Provision utilised	(41.7)	(145.4)	(8.6)	(4.1)	–	(70.5)
Balance at the end of the year	359.5	149.1	53.9	34.3	–	55.3
Reconciliation 2005						
Balance at the beginning of the year	359.5	149.1	53.9	34.3	–	55.3
Provision created	207.1	240.0	15.7	11.3	–	65.5
Provision utilised	(142.7)	(186.0)	(11.3)	(17.4)	–	(54.9)
Balance at the end of the year	423.9	203.1	58.3	28.2	–	65.9
Reconciliation 2006						
Balance at the beginning of the year	**423.9**	**203.1**	**58.3**	**28.2**	**–**	**65.9**
Provision created	**188.0**	**321.1**	**25.1**	**38.5**	**139.0**	**25.3**
Provision utilised	**(159.5)**	**(244.4)**	**(12.6)**	**(33.9)**	**(16.9)**	**(53.8)**
Balance at the end of the year	**452.4**	**279.8**	**70.8**	**32.8**	**122.1**	**37.4**

	2004 Rm	2005 Rm	**2006 Rm**
22. PROVISIONS (continued)			
Timing of provisions			
Within one year	473.7	595.0	**623.0**
After one year	178.4	184.4	**372.3**
	652.1	779.4	**995.3**

Provisions are required to be recorded when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

Best estimates, being the amount that the Group would rationally pay to settle the obligation, are recognised as provisions at balance sheet date. Risks, uncertainties and future events are taken into account by management in determining the best estimates. Provisions are discounted where the effect of discounting is material. The discount rate used is the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management judgement. All provisions are reviewed at each balance sheet date.

Various uncertainties can result in obligations not being considered probable or estimable for significant periods of time. As a consequence, potentially material obligations may have no provisions and a change in facts or circumstances that result in an obligation becoming probable or estimable can lead to a need for the establishment of material provisions. In addition, where estimated amounts vary from initial estimates the provisions may be revised materially, up or down.

The Group is required to record provisions for legal contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the balance sheet date.

22.1 Deferred bonus incentive provision

The deferred bonus incentive provision represents the present value of the expected future cash outflows of the entitlement value at the balance sheet date less the value at which the entitlements were issued, multiplied by the number of entitlements allocated to a participant.

The value of the bonus entitlements are determined based upon the audited consolidated annual financial statements of the Group. Periodically, a number of entitlements are issued to employees, the value of which depends on the seniority of the employee. The participating rights of employees vest at different stages and employees are entitled to cash in their entitlements within one year after the participating rights have vested. The provision is utilised when eligible employees receive the value of vested entitlements.

22.2 Bonus provision

The bonus provision consists of a performance bonus based on the achievement of the predetermined financial targets, payable to all levels of staff.

22.3 Leave pay provision

The leave pay provision relates to vested leave pay to which employees may become entitled upon leaving the employment of the Group. The provision arises as employees render a service that increases their entitlement to future compensated leave. The provision is utilised when employees who are entitled to leave pay, leave the employment of the Group or when the accrued leave due to an employee, is utilised.

22.4 Warranty provision

The warranty provision covers manufacturing defects in the second year of warranty on handsets sold to customers. The estimate is based on claims notified and past experience.

22. PROVISIONS (continued)

22.5 Long-term incentive provision

The long-term incentive provision represents the present value of the expected future cash outflows to eligible employees who qualify. The amount of the liability is based on an actuarial valuation. The provision is utilised when eligible employees receive the value of vested benefits.

	2004 Rm	2005 Rm	**2006 Rm**
Net liability at the beginning of the year	–	–	**–**
Interest cost	–	–	**6.5**
Current service cost	–	–	**9.1**
Recognised actuarial losses	–	–	**123.4**
Net cost	–	–	**139.0**
Total benefit payments	–	–	**(16.9)**
Net liability at the end of the year	–	–	**122.1**
Key assumptions:			
General inflation rate (%)	–	–	**4.7**
Discount rate (%)	–	–	**7.4**
Salary inflation (%)	–	–	**5.7**
Valuation date	–	–	**March 31, 2006**

22.6 Other

Other provisions for the Group include provisions for advertising received from suppliers of handsets and various other smaller provisions. The advertising provision represents the advertising expenditure not yet spent or claimed by the Group or external service providers.

23. CHANGE IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND RESTATEMENTS

	Balance as previously reported Rm	Operating leases Rm	Investment property Rm	Interest rate swap Rm	Software reclassification Rm	Balance as restated Rm
Reconciliation 2004						
Income statement						
Direct network operating cost	12,430.1	5.0	–	–	–	12,435.1
General administration expenses	682.3	4.9	–	–	–	687.2
Taxation	1,725.0	(3.0)	–	–	–	1,722.0
Net profit (Profit after taxation)	(3,059.2)	6.9	–	–	–	(3,052.3)
Retained earnings (Opening balance)	(6,962.8)	53.6	–	–	–	(6,909.2)
Balance sheet						
Non-current assets						
Property, plant and equipment	10,858.6	–	53.9	–	–	10,912.5
Investment properties	63.8	–	(53.9)	–	–	9.9
Financial assets	258.3	–	–	(35.9)	–	222.4
Lease assets	–	22.2	–	–	–	22.2
Current assets						
Short-term financial assets	318.4	–	–	35.9	–	354.3
Equity						
Retained earnings	(7,896.6)	60.5	–	–	–	(7,836.1)
Non-current liabilities						
Deferred taxation	(436.0)	25.9	–	–	–	(410.1)
Operating lease liabilities	–	(108.6)	–	–	–	(108.6)
Reconciliation 2005						
Income statement						
Direct network operating cost	14,614.1	3.7	–	–	–	14,617.8
Depreciation	2,611.1	–	–	–	(197.5)	2,413.6
General administration expenses	747.9	3.4	–	–	–	751.3
Amortisation of intangible assets	232.1	–	–	–	197.5	429.6
Taxation	2,614.2	(1.2)	–	–	–	2,613.0
Net profit (Profit after taxation)	(3,892.2)	5.9	–	–	–	(3,886.3)
Retained earnings (Opening balance)	(7,896.6)	60.5	–	–	–	(7,836.1)
Balance sheet						
Non-current assets						
Property, plant and equipment	12,230.7	–	49.7	–	(703.5)	11,576.9
Investment properties	49.7	–	(49.7)	–	–	–
Intangible assets	940.8	–	–	–	703.5	1,644.3
Financial assets	137.5	–	–	(44.2)	–	93.3
Lease assets	–	28.9	–	–	–	28.9
Current assets						
Short-term financial assets	142.9	–	–	44.2	–	187.1
Equity						
Retained earnings	(8,123.6)	66.4	–	–	–	(8,057.2)
Non-current liabilities						
Deferred taxation	(499.2)	27.1	–	–	–	(472.1)
Operating lease liabilities	–	(122.4)	–	–	–	(122.4)

23. CHANGE IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND RESTATEMENTS (continued)

The Group changed some of its accounting policies as a result of the adoption of the following revised standards:

- IAS 16 (revised): Property, Plant and Equipment ("IAS 16")
- IAS 17 (revised): Leases ("IAS 17")

The tables above reflect the changes that were made to the 2005 and 2004 years as a result of certain restatements and balance sheet reclassifications.

Change in accounting policies

23.1 Property, plant and equipment

The Group adopted IAS 16 on April 1, 2005. Each significant component included in an item of property, plant and equipment is now separately recorded and depreciated. Useful lives and residual values are now reviewed on an annual basis. The impact of the adoption is not material and therefore has no impact on prior year numbers.

23.2 Leases

The Group adopted IAS 17 on April 1, 2005. A lease of land and buildings is classified by considering the land and buildings elements separately. Minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interest in the land and buildings elements of the lease. With regards to finance leases, initial direct costs are added to the amount recognised as an asset. The adoption does not impact the Group's results or cash flow information for the years ended March 31, 2005 and 2004.

Restatements impacting net profit

23.3 Operating leases

The Group restated lease payments and receipts under operating leases in order to recognise the expenses and income on a straight-line basis over the lease terms. This ensures that the income statement charge/income is more representative of the time pattern of the operating lease benefit to the Group. The Group previously recognised the expenses and the income based on the amount paid or payable and received or receivable for each period. The restatement impacts the Group's results for the years ended March 31, 2005 and 2004.

Restatements resulting in balance sheet reclassifications

23.4 Investment properties

The Group previously classified its Vodaworld property as an investment property. However, the property's primary purpose is to service and connect Vodacom customers. The property, therefore, does not meet the criteria of IAS 40: Investment Property, i.e. to earn rentals or for capital appreciation. Accordingly, a restatement was processed retrospectively to classify the Vodaworld property as property, plant and equipment.

23.5 Interest rate swap

Derivatives not accounted for as hedges are classified as trading instruments under IAS 39: Financial Instruments: Recognition and Measurement. Furthermore, IAS 1: Presentation of Financial Statements requires that all trading instruments be classified as short term and therefore current assets. The Group previously classified its derivatives based on maturity date, and therefore, restated its interest rate swaps retrospectively. The change in classification does not impact the Group's results or cash flow information for the years ended March 31, 2005 and 2004.

23.6 Software reclassification

The Group previously classified computer software as property, plant and equipment. Under IAS 38: Intangible Assets ("IAS 38"), computer software that is not considered integral to the related hardware should be classified as an intangible asset. Accordingly, the Group reclassified computer software cost and accumulated depreciation that are not considered integral to the related hardware to intangible assets. The Group also reclassified software depreciation to amortisation of intangible assets. The restatement was performed retrospective from April 1, 2004, the date at which the Group adopted IAS 38. The change in classification does not impact the Group's results or cash flow information for the year ended March 31, 2005.

		2004 Rm	2005 Rm	**2006 Rm**
24.	**CASH GENERATED FROM OPERATIONS**			
	Profit from operations	5,225.2	6,478.2	**8,865.7**
	Adjusted for:			
	Depreciation of property, plant and equipment	2,316.9	2,413.6	**2,651.6**
	Net loss/(profit) on disposal of property, plant and equipment	6.8	(1.8)	**26.8**
	Bad debts written off	48.8	52.2	**42.3**
	Impairment of assets	–	268.4	**(52.8)**
	Amortisation of intangible assets	214.8	429.6	**344.2**
	Cash flow from operations before working capital changes	7,812.5	9,640.2	**11,877.8**
	Increase in trade and other receivables	(937.8)	(330.1)	**(1,035.0)**
	Decrease/(Increase) in inventory	(32.2)	(161.1)	**16.8**
	Increase in trade and other payables and provisions	754.2	863.0	**230.7**
	Cash generated from operations	7,596.7	10,012.0	**11,090.3**
25.	**FINANCE COSTS PAID**			
	Bank overdraft	(27.3)	(39.1)	**(15.2)**
	Finance leases	(130.1)	(127.3)	**(121.6)**
	Funding loans	(64.4)	(32.2)	**(73.8)**
	Interest on minority shareholder loan	(7.6)	(7.2)	**(8.1)**
	Leasehold property	(5.2)	–	**–**
	Other finance costs	(13.3)	(24.2)	**(30.6)**
	Interest on shareholder loans	(47.2)	–	**–**
	Interest accrual at the beginning of the year	–	(14.2)	**(39.9)**
	Interest accrual at the end of the year	14.2	39.9	**56.7**
		(280.9)	(204.3)	**(232.5)**
	Interest rate swap interest	(1.1)	(5.5)	**–**
	Interest rate swap revaluation	(18.9)	(11.3)	**(10.8)**
	Loss on foreign exchange contract revaluation	(479.1)	(143.4)	**(471.8)**
	Loss on foreign liability and asset revaluation	(313.3)	(251.5)	**(586.3)**
	Unrealised losses on foreign exchange contract revaluation	393.2	126.8	**411.7**
	Unrealised losses on foreign liability and asset revaluation	155.9	211.5	**417.6**
	Unrealised losses on interest rate swap	18.9	11.3	**10.8**
	Other non-cash flow items	13.0	7.2	**14.9**
		(512.3)	(259.2)	**(446.4)**

		2004 Rm	2005 Rm	**2006 Rm**
26.	**INTEREST, DIVIDENDS AND OTHER FINANCIAL INCOME RECEIVED**			
	Banks and loans	68.4	93.6	**89.4**
	Dividends received	5.4	–	**–**
	Guarantee fees	26.4	–	**–**
	Income from investments at fair value through profit and loss	11.2	8.0	**7.8**
	Other interest income	6.2	15.8	**19.7**
	Interest income receivable at the beginning of the year	10.3	18.9	**35.7**
	Interest income receivable at the end of the year	(18.9)	(35.7)	**(41.5)**
	Guarantee fees accrual at the beginning of the year	14.7	13.1	**–**
	Guarantee fees accrual at the end of the year	(13.1)	–	**–**
	Elimination on consolidation of Vodacom Congo (RDC) s.p.r.l.	–	(13.1)	**–**
		110.6	100.6	**111.1**
	Gain on foreign exchange contract revaluation	269.6	155.1	**211.2**
	Gain on foreign liability and asset revaluation	238.0	358.3	**314.0**
	Interest rate swap interest	5.1	11.6	**13.0**
	Interest rate swap revaluation	26.3	20.4	**4.2**
	Unrealised gain on foreign exchange contract revaluation	(210.3)	(120.5)	**(117.1)**
	Unrealised gain on foreign liability and asset revaluation	(38.9)	(258.2)	**(193.6)**
	Unrealised gain on interest rate swap revaluation	(26.3)	(20.5)	**(4.2)**
	Other non-cash flow items	(5.4)	–	**–**
		368.7	246.8	**338.6**
27.	**TAXATION PAID**			
	Taxation per the consolidated income statement	(1,722.0)	(2,613.0)	**(3,077.8)**
	Taxation payable at the beginning of the year	(315.2)	(852.0)	**(632.6)**
	Taxation payable at the end of the year	852.0	632.6	**630.2**
	Deferred taxation at the beginning of the year	(265.5)	(132.3)	**(164.0)**
	Deferred taxation at the end of the year	132.3	164.0	**304.7**
	Business combination – deferred taxation	(118.8)	(40.0)	**(35.8)**
	Business combination – taxation payable	(29.6)	–	**(15.2)**
	Movement due to foreign equity revaluation reserve	10.9	–	**10.2**
	Exchange difference on consolidation of foreign subsidiary	(7.4)	–	**–**
	Acquired from the minorities of Vodacom Congo (RDC) s.p.r.l.	–	96.3	**–**
		(1,463.3)	(2,744.4)	**(2,980.3)**
28.	**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**			
	Additions to property, plant and equipment (Note 8)	(2,890.7)	(3,288.4)	**(4,699.4)**
	Less: Vodacom (Proprietary) Limited finance leases	10.4	–	**–**
	Increase in capital expenditure related creditors	66.5	240.4	**353.1**
		(2,813.8)	(3,048.0)	**(4,346.3)**

		2004 Rm	2005 Rm	**2006 Rm**
29.	**ACQUISITION OF SUBSIDIARIES**			
	Acquisition of subsidiaries			
	Smartphone SP (Proprietary) Limited and subsidiaries (Note 29.1)	149.6	(233.8)	**–**
	Smartcom (Proprietary) Limited (Note 29.2)	–	(15.9)	**–**
	Customer base of Tiscali (Proprietary) Limited (Note 29.3)	–	(40.1)	**0.3**
	Vodacom Properties No. 1 (Proprietary) Limited (Note 29.4)	–	–	**–**
	Cointel VAS (Proprietary) Limited (Note 29.5)	–	–	**(0.4)**
	Cash (outflow)/inflow from acquisitions	149.6	(289.8)	**(0.1)**

29.1 Smartphone SP (Proprietary) Limited and subsidiaries

On March 1, 2004, the Group acquired a 51% interest in the equity of Smartphone SP (Proprietary) Limited, which has a 100% shareholding in Stand 13 Eastwood Road Dunkeld (Proprietary) Limited and 52% in Ithuba Smartcall (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined by the Group and are as follows:

	2004 Rm	2005 Rm	**2006 Rm**
Fair value of net assets acquired	(9.8)	–	**–**
Property, plant and equipment	6.2	–	**–**
Investment properties	9.9	–	**–**
Prepaid customer base	230.4	–	**–**
Trademark	158.2	–	**–**
Investments	16.4	–	**–**
Deferred taxation asset	0.2	–	**–**
Inventory	31.0	–	**–**
Accounts receivable	115.8	–	**–**
Cash and cash equivalents	149.6	–	**–**
Deferred taxation liability (including taxation effect on intangibles)	(119.0)	–	**–**
Accounts payable	(558.8)	–	**–**
Taxation payable	(29.6)	–	**–**
Long-term loan	(0.3)	–	**–**
Provision	(0.2)	–	**–**
Goodwill	(224.0)	–	**–**
Purchase price (including capitalised costs)	(233.8)	–	**–**
Cash and cash equivalents	149.6	–	**–**
Cash consideration	(84.2)	–	**–**
Less: Amount payable	233.8	–	**–**
	149.6	–	**–**

The purchase price of R231.2 million together with capitalised costs of R2.6 million totalling R233.8 million, was paid on April 7, 2004. The outstanding amount accrued interest at prime less 2% per annum from March 1, 2004 up to the date of payment.

The company had a contingent asset of R70.9 million at the date of acquisition. The Group valued the asset at Rnil. The contingent asset realised during the current financial year. The Group had an obligation under the shareholders agreement to pay the company an additional amount should the asset realise. The additional amount paid by the Group qualified as a contingent purchase consideration and resulted in an adjustment of R36.2 million to goodwill. The recognition of the contingent asset therefore resulted in a profit of R70.9 million in the consolidated income statement for the year ended March 31, 2006 with R34.7 million being allocated to minority interest.

29. ACQUISITION OF SUBSIDIARIES (continued)

29.2 Smartcom (Proprietary) Limited

On April 16, 2004, the Group acquired an 85.75% interest in the equity of Smartcom (Proprietary) Limited through its 51% owned subsidiary, Smartphone SP (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined by the Group and are as follows:

	2004 Rm	2005 Rm	**2006 Rm**
Fair value of net assets acquired	–	(70.5)	**–**
Property, plant and equipment	–	5.0	**–**
Contract customer base	–	95.6	**–**
Deferred taxation asset	–	1.7	**–**
Inventory	–	3.9	**–**
Accounts receivable	–	55.4	**–**
Cash and cash equivalents	–	61.5	**–**
Deferred taxation liability (including taxation effect on intangibles)	–	(28.7)	**–**
Accounts payable	–	(113.6)	**–**
Dividends payable	–	(10.0)	**–**
Provision	–	(0.3)	**–**
Minority interest	–	10.1	**–**
Goodwill	–	(8.9)	**–**
Purchase price (including capitalised costs)	–	(69.3)	**–**
Cash and cash equivalents	–	61.5	**–**
Cash consideration	–	(7.8)	**–**
Less: Capitalised costs paid in previous financial year	–	0.5	**–**
Plus: Smartphone SP (Proprietary) Limited's share of the dividend paid by Smartcom (Proprietary) Limited	–	(8.6)	**–**
	–	(15.9)	**–**
The carrying value of the assets and liabilities at acquisition was as follows:	–	3.2	**–**
Non-current assets	–	6.7	**–**
Current assets	–	120.4	**–**
Current liabilities	–	(123.9)	**–**

The purchase price of R77.9 million (including capitalised costs, excluding dividend from Smartcom (Proprietary) Limited) was paid during April 2004. The company declared a dividend to its shareholders from pre-acquisition reserves on August 18, 2004. The dividend was paid on August 31, 2004.

The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers.

Revenue amounting to R173.3 million and net profit before allocation to minorities of R26.6 million is included in the March 31, 2005 results.

	2004 Rm	2005 Rm	**2006 Rm**
29. ACQUISITION OF SUBSIDIARIES (continued)			
29.3 Customer base of Tiscali (Proprietary) Limited			
Effective February 1, 2005 the Group acquired the cellular business of Tiscali (Proprietary) Limited. The fair value of the assets and liabilities acquired were determined as follows:			
Fair value of net assets acquired	–	(30.3)	**–**
Contract customer base	–	43.3	**–**
Deferred taxation liability	–	(13.0)	**–**
Goodwill	–	(9.8)	**0.3**
Purchase price	–	(40.1)	**0.3**

The customer base was not previously recorded in the accounting records of Tiscali (Proprietary) Limited as it was an internally generated intangible asset. The goodwill related to the acquisition represents future synergies and the ability to directly control the Group's customers. It is impracticable to disclose the revenue and profit of the business that is included in the prior years results as the customer base was integrated into Vodacom Service Provider Company (Proprietary) Limited. The profit and revenue related to these customers were not separately recorded. For the same reason stated above it would not be practicable to determine the impact on revenue and profits of the Group for a full year.

29.4 Vodacom Properties No. 1 (Proprietary) Limited

During the 2003 financial year the Group exercised its option included in the finance lease agreement and acquired 100% of Skyprops 157 (Proprietary) Limited. The name of the company was subsequently changed to Vodacom Properties No. 1 (Proprietary) Limited.

	2004 Rm	2005 Rm	**2006 Rm**
The fair value of the net assets acquired are as follows:	–	–	**–**
Property, plant and equipment	1.6	–	**–**
Long-term loan	(1.6)	–	**–**
Purchase price	–	–	**–**

29. ACQUISITION OF SUBSIDIARIES (continued)

29.5 Cointel VAS (Proprietary) Limited

On August 1, 2005, the Group acquired a 51% interest in the equity of Cointel VAS (Proprietary) Limited. The fair values of the assets and liabilities acquired were preliminary determined by the Group and are as follows:

	2004 Rm	2005 Rm	**2006 Rm**
Fair value of net assets acquired	–	–	**(94.9)**
Property, plant and equipment	–	–	**1.7**
Intangible assets	–	–	**179.3**
Trade and other receivables	–	–	**7.4**
Cash and cash equivalents	–	–	**83.9**
Deferred taxation liability (including taxation effect on intangibles)	–	–	**(35.8)**
Trade and other payables	–	–	**(114.2)**
Taxation payable	–	–	**(15.2)**
Provisions	–	–	**(1.2)**
Dividends payable	–	–	**(11.0)**
Minority interest	–	–	**46.5**
Goodwill	–	–	**(35.9)**
Purchase price (including capitalised costs)	–	–	**(84.3)**
Cash and cash equivalents	–	–	**83.9**
Cash consideration	–	–	**(0.4)**
The carrying value of the assets and liabilities at acquisition was as follows:	–	–	**6.3**
Non-current assets	–	–	**56.7**
Current assets	–	–	**91.3**
Current liabilities	–	–	**(140.5)**
Non-current liabilities	–	–	**(1.2)**

The purchase price of R83.6 million (excluding capitalised costs) was paid on August 23, 2005.

Revenue amounting to R89.9 million and net profit of R17.8 million are included in the current year results. Consolidated revenue would have amounted to R34,062.5 million and consolidated net profit to R5,139.4 million if the entity had been consolidated for the full year ended March 31, 2006.

The goodwill related to the acquisition represents future synergies and are allocated to the South African cash-generating unit.

30. ACQUIRED RESERVES FROM THE MINORITIES OF VODACOM CONGO (RDC) S.P.R.L.

Vodacom Congo (RDC) s.p.r.l. ("Vodacom Congo") was prior to April 1, 2004 accounted for as a joint venture (Note 35). During the previous financial year the shareholders' agreement was amended to remove some of the participative rights of the minorities, resulting in Vodacom Congo now being controlled and considered to be a 51% owned subsidiary of the Group from April 1, 2004. The Group's interest in the company was consolidated from this date in accordance with IAS 27: Consolidated and Separate Financial Statements.

The 49% portion of the assets, liabilities and losses attributable to the joint venture partner as at March 31, 2004 that had not been consolidated at that date, were as follows:

	As at March 31, 2004 Rm
Net loss for the year after taxation	(13.7)
Total liabilities (including preference shares)	(1,133.2)
Total assets	981.9
The following assets and liabilities were consolidated on April 1, 2004 to account for Vodacom Congo (RDC) s.p.r.l. as a subsidiary:	
Total assets	981.9
Property, plant and equipment	596.3
Intangible assets	101.9
Deferred taxation asset	96.3
Inventory	26.1
Accounts receivable	64.9
Short-term investments and loans	75.2
Cash and cash equivalents	21.2
Total liabilities	(1,133.2)
Accounts payable	(138.7)
Short-term interest-bearing debt	(985.8)
Provision	(0.4)
Bank overdraft	(8.3)
Non-distributable reserve	(82.1)
Distributable reserves	(233.4)

No portion was allocated to the minorities as a result of the negative net equity position of the company. The negative net equity was recorded directly in reserves on April 1, 2004.

		2004 Rm	2005 Rm	**2006 Rm**
31.	**CASH AND CASH EQUIVALENTS AT END OF YEAR**			
	Bank and cash balances	2,370.1	2,990.1	**3,146.1**
	Short-term bank deposits	–	1,000.0	**–**
	Bank borrowings	(772.4)	(1,817.1)	**(1,385.8)**
		1,597.7	2,173.0	**1,760.3**

The short-term bank deposits at the end of March 31, 2005 bore interest at an effective interest rate of 7.4% and matured on April 1, 2005.

		2004 R	2005 R	**2006 R**
32.	**EARNINGS AND DIVIDEND PER SHARE**			
32.1	**Basic and diluted earnings per share**			
	The calculation of basic earnings per ordinary share before adjustments for changes in accounting policies, reclassifications and restatements (Note 23) was based on earnings of R3,861.4 million (2004: R3,033.0 million) at March 31, 2005 and 10,000 issued ordinary shares (2004: 10,000) at March 31, 2005. The following adjustments were made:	303,300	386,140	
	Operating leases	(690)	(590)	
	Earnings per share – restated	302,610	385,550	
	The calculation of basic earnings per ordinary share is based on earnings of R5,012.3 million (2005: R3,855.5 million; 2004: R3,026.1 million) and 10,000 issued ordinary shares (2005: 10,000; 2004: 10,000).	302,610	385,550	**501,230**
	Due to no dilution factors being present, basic earnings per share equals diluted earnings per share.			
32.2	**Dividend per share**			
	The calculation of the dividend per ordinary share is based on a declared ordinary dividend of R4,500.0 million (2005: R3,400.0 million; 2004: R2,100.0 million) and 10,000 issued ordinary shares (2005: 10,000; 2004: 10,000). The dividends were declared as follows:			
	Declared March 9, 2006 to shareholders registered on April 3, 2006 and paid on April 5, 2006 (Final)	–	–	**280,000**
	Declared September 9, 2005 to all shareholders registered on October 1, 2005 and paid on October 3, 2005 (Interim)	–	–	**170,000**
	Declared March 10, 2005 to shareholders registered on March 31, 2005 and paid on April 1, 2005 (Final)	–	180,000	**–**
	Declared September 10, 2004 to all shareholders registered on October 1, 2004 and paid on October 1, 2004 (Interim)	–	160,000	**–**
	Declared March 11, 2004 to shareholders registered on May 28, 2004 and paid on May 31, 2004 (Final)	150,000	–	**–**
	Declared September 11, 2003 to shareholders registered on September 11, 2003 and paid on September 30, 2003 (Interim)	60,000	–	**–**
		210,000	340,000	450,000

		2004 Rm	2005 Rm	**2006 Rm**
33.	**CAPITAL COMMITMENTS**			
	Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:			
	Vodacom (Proprietary) Limited	448.4	1,272.2	**709.1**
	Vodacom Congo (RDC) s.p.r.l.	42.5	62.2	**99.5**
	Vodacom Tanzania Limited	169.8	37.1	**201.2**
	Vodacom Service Provider Company (Proprietary) Limited	39.7	18.0	**16.9**
	Vodacom Group (Proprietary) Limited	0.2	0.3	**222.9**
	VM, S.A.R.L.	–	78.0	**34.2**
		700.6	1,467.8	**1,283.8**
	Capital expenditure commitments approved by the Board of Directors but not yet contracted for at the balance sheet date are as follows:			
	Vodacom (Proprietary) Limited	3,875.7	3,268.0	**4,872.3**
	Vodacom Tanzania Limited	118.8	332.1	**650.6**
	Vodacom Congo (RDC) s.p.r.l.	102.7	283.8	**293.4**
	Vodacom Service Provider Company (Proprietary) Limited	71.1	138.8	**164.7**
	Vodacom Lesotho (Proprietary) Limited	12.2	16.2	**24.9**
	Vodacom Group (Proprietary) Limited	9.2	88.8	**111.7**
	VM, S.A.R.L.	277.8	281.4	**71.7**
	Smartphone SP (Proprietary) Limited	0.1	3.7	**15.2**
	Cointel VAS (Proprietary) Limited	–	–	**2.2**
		4,467.6	4,412.8	**6,206.7**
	The capital expenditure of the Group will be financed through internal cash generation, extended supplier credit and bank credit.			
34.	**OTHER COMMITMENTS**			
	Operating leases (Note 34.1)	3,180.0	5,841.7	**6,277.8**
	Sport and marketing contracts (Note 34.2)	727.4	624.9	**1,133.7**
	Site rentals (Note 34.3)	713.5	811.6	**567.8**
		4,620.9	7,278.2	**7,979.3**

		Within one year Rm	Between two and five years Rm	After five years Rm	Total Rm
34.1	**Operating leases**				
	Transmission and data lines GSM	1,145.1	4,554.3	3.4	5,702.8
	Accommodation	132.9	435.9	2.9	571.7
	Other operating leases	0.8	2.2	0.3	3.3
		1,278.8	4,992.4	6.6	6,277.8
34.2	**Sport and marketing contracts**	298.1	835.6	–	1,133.7
34.3	**Site rentals**	132.8	433.6	1.4	567.8

34. OTHER COMMITMENTS (continued)

34.4 Interception of Communications and Provision of Communication-related Information Act ("the Act")

The Act was proclaimed in the *Government Gazette* and has been made effective September 30, 2005 with the exception of the provisions dealing with customer registration which comes into effect on June 30, 2006. The cellular operators have succeeded in obtaining in principle support by the Department of Justice for an electronic registration process. The legislative amendments necessary to allow for such an electronic registration process have not yet been effected, but are anticipated prior to the effective date of June 30, 2006. The Group has until May 28, 2006 to acquire and implement the monitoring and interception facilities as per the technical specifications of the facilities agreed upon between the Group and the Department of Justice and promulgated on November 28, 2005. A reliable estimate of capital and operating costs that will potentially be incurred in order to comply with the provisions of the Act cannot be determined at this stage.

34.5 Service providers

Service provider agreements with the Group's independent service providers were extended for a further period of five years during the current financial year.

34.6 Cellular licence fees

Network operators in the Group pay monthly licence fees based on their net operational income as defined in the licence agreement. Net operational income is defined as the total invoiced revenue of the licencee excluding discounts, Value Added Taxation and other direct taxes derived from customers of the licencee for the provision to them of the service, less net interconnect fees and bad debts actually incurred.

34.7 Global alliance fees

The Group pays annual fees from February 18, 2005 for services provided to the Group by Vodafone Group Plc. The fee is calculated as a percentage of revenue and amounted to R175.2 million (2005: R17.0 million).

34.8 Retention incentives

The Group has committed a maximum of R456.0 million (2005: R373.1 million) in respect of customers already beyond their normal 24-month contract period, but who have not yet upgraded into new contracts, and therefore have not utilised the incentives available for such upgrades. The Group has not provided for the liability, as no legal obligation exists, since the customers have not yet entered into new contracts.

34.9 Activation bonuses

The Group has a potential liability in respect of activation bonuses payable related to starterpacks sold which have not yet been validated. The exposure is estimated at approximately R8.9 million (2005: R6.0 million).

34.10 Other

An offer to acquire the cellular business of Africell Cellular Services (Proprietary) Limited ("Africell") was made and accepted. The suspensive conditions as well as Competition Commission approval, is currently being attended to.

		2004 Rm	2005 Rm	**2006 Rm**
35.	**CONTINGENT LIABILITIES**			
	Various other legal matters	9.2	4.9	**5.0**

35.1 Vodacom Congo (RDC) s.p.r.l.

The Group has a 51% equity interest in Vodacom Congo (RDC) s.p.r.l. ("Vodacom Congo"), which commenced business on December 11, 2001. This investment is governed by a shareholders' agreement, which previously provided the minority shareholder with certain protective and participative rights and therefore, in terms of IAS 31: Interest in Joint Ventures, Vodacom Congo was considered to be a joint venture resulting in it being proportionally consolidated in the annual financial statements for the year ended March 31, 2004.

The Group, in terms of the previous shareholders' agreement was, however, ultimately responsible for the funding of the operations of Vodacom Congo. The shareholders' agreement also gave the Group the right to appoint management and the majority of the Board of the company. The Group also had a management agreement to manage the company on a day-to-day basis.

During the previous financial year the shareholders' agreement was amended to remove some of the participative rights, resulting in Vodacom Congo now being controlled and considered to be a 51%-owned subsidiary of the Group from April 1, 2004. The Group's interest in the company is consolidated from this date in accordance with IAS 27: Consolidated and Separate Financial Statements (Note 30).

The 49% portion attributable to the joint venture partner of the liabilities and losses as at March 31, 2004 was as follows:

Net loss for the year after taxation	(13.7)
Total liabilities (including preference shares)	(1,133.2)
Total assets	981.9

All guarantees issued are disclosed in Note 41.

35.2 Negative working capital ratio

For financial years ended 2006, 2005 and 2004 the Group had a negative working capital ratio. A negative working capital ratio arises when the Group's current liabilities are greater than the current assets. The Group's management believes that based on its operating cash flow, it will be able to meet liabilities as they arise and that it is in compliance with all covenants contained in the borrowing agreements.

35.3 Other

The Group is regularly subject to an evaluation, by the taxation authorities, of its direct and indirect taxation filings and in connection with such reviews, disputes can arise with the taxation authorities over the interpretation or application of certain taxation rules applicable to the Group's business. These disputes may not necessarily be resolved in a manner that is favourable for the Group. Additionally the resolution of the disputes could result in an obligation for the Group.

During each of the years presented, provisions have been made or adjusted for anticipated obligations related to these taxation matters under review. The provisions made include estimates of anticipated interest and penalties where appropriate. Where no reliable assessment could be made, no provisions have been raised.

The Group is in discussions with relevant taxation authorities on specific matters regarding the application and interpretation of taxation legislation affecting the Group and the industry in which it operates. No reliable assessment can be made at this time of any exposure, if any, that the Group may incur.

36. RETIREMENT BENEFITS

All eligible employees of the Group are members of the Vodacom Group pension fund, a defined contribution pension scheme. Certain executive employees of the Group are also members of the Vodacom executive provident fund, a defined contribution provident scheme. Both schemes are administered by ABSA Consultants and Actuaries (Proprietary) Limited. Current contributions to the pension fund amounted to R76.4 million (2005: R70.7 million; 2004: R65.9 million). Current contributions to the provident fund amounted to R12.9 million (2004: R4.2 million; 2004: R5.9 million). South African funds are governed by the Pension Funds Act of 1956.

37. EVENTS SUBSEQUENT TO YEAR-END

The directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in the Group consolidated financial statements, which significantly affected the financial position of the Group and results of its operations.

	2004 Rm	2005 Rm	**2006 Rm**
38. RELATED PARTY TRANSACTIONS			
38.1 Balances with related parties			
Included in accounts receivable			
Telkom SA Limited – Interconnect	491.1	487.9	**509.7**
Telkom SA Limited – Other	8.4	11.7	**6.3**
Vodafone Group Plc and subsidiaries	8.0	22.7	**12.7**
Included in accounts payable			
Telkom SA Limited – Interconnect	(78.9)	(74.0)	**(85.3)**
Telkom SA Limited – Other	(4.1)	(9.6)	**(16.5)**
Vodafone Group Plc and subsidiaries	(2.6)	(20.3)	**(3.7)**
VenFin Telecommunication Investments Limited	–	–	**(0.1)**
Dividends payable			
Telkom SA Limited	(750.0)	(900.0)	**(1,400.0)**
Vodafone Holdings (SA) (Proprietary) Limited	(525.0)	(630.0)	**(980.0)**
VenFin Telecommunication Investments Limited	(225.0)	(270.0)	**(420.0)**

These outstanding balances are unsecured and will be settled in cash in the ordinary course of business. No guarantees have been provided.

During the current financial year, shareholding changed. Vodafone Holdings (SA) (Proprietary) Limited increased its effective shareholding in the Group from 35% to 50%. This was achieved by acquiring a 100% shareholding in VenFin Limited, who ultimately owns 15% in the Group.

	2004 Rm	2005 Rm	**2006 Rm**
38. RELATED PARTY TRANSACTIONS (continued)			
38.2 Transactions with related parties			
Telkom SA Limited (entity with joint control over the Group)	304.0	(82.0)	**(798.5)**
Audit fees recovered	6.8	4.6	**4.8**
Cellular usage	31.1	33.1	**37.0**
Installation of transmission lines	(28.1)	(49.9)	**(93.4)**
Interconnect expense	(417.2)	(465.3)	**(464.3)**
Interconnect income	2,732.8	2,728.2	**2,817.8**
Interest paid – commercial	(0.1)	–	**(0.1)**
Lease of transmission lines	(438.0)	(511.9)	**(752.1)**
Other	(3.2)	–	**4.8**
Site costs	(18.3)	(19.9)	**(26.3)**
Telephone landline usage	(30.2)	(33.6)	**(26.7)**
Site costs	–	7.6	**10.8**
Telkom prepaid vouchers	–	(74.9)	**(60.8)**
Interest payments on shareholder loan	(21.6)	–	**–**
Shareholder loan repayment	(460.0)	–	**–**
Dividend payable	(750.0)	(900.0)	**(1,400.0)**
Dividend paid	(300.0)	(800.0)	**(850.0)**
Vodafone Group Plc and subsidiaries	(127.7)	(14.9)	**(192.0)**
Roaming income	54.9	65.5	**73.6**
Roaming expense	(50.9)	(63.4)	**(90.6)**
Global alliance agreement	–	(17.0)	**(175.2)**
Secondee cost recovery	–	–	**0.2**
Interest payments on shareholder loan	(7.4)	–	**–**
Shareholder loan repayment	(124.3)	–	**–**
Vodafone Holdings (SA) (Proprietary) Limited (entity with joint control over the Group)	(944.5)	(1,190.0)	**(1,575.0)**
Interest payments on shareholder loan	(11.8)	–	**–**
Shareholder loan repayment	(197.7)	–	**–**
Dividend payable	(525.0)	(630.0)	**(980.0)**
Dividend paid	(210.0)	(560.0)	**(595.0)**
VenFin Finance Corporation (Proprietary) Limited	(156.2)	(5.1)	**(4.8)**
Interest payments	(11.0)	(4.3)	**(1.9)**
Facility fees	(0.7)	(0.8)	**(0.9)**
Aircraft charter fees	–	–	**(2.0)**
Interest payments on shareholder loan	(6.5)	–	**–**
Shareholder loan repayment	(138.0)	–	**–**
VenFin Telecommunication Investments Limited (entity with joint control over the Group)	(315.0)	(510.0)	**(675.0)**
Dividend payable	(225.0)	(270.0)	**(420.0)**
Dividend paid	(90.0)	(240.0)	**(255.0)**
Transactions with entities in which related parties have an interest	–	–	**(20.3)**

	2004 Rm	2005 Rm	**2006 Rm**
38. RELATED PARTY TRANSACTIONS (continued)			
38.3 Key management personnel compensation (excluding directors' emoluments)			
Key management personnel remuneration	(13.5)	(29.7)	**(56.0)**
Salaries	(4.4)	(9.9)	**(17.1)**
Fringe benefits	(0.3)	(0.8)	**(0.6)**
Bonuses and incentives	(8.8)	(16.7)	**(38.2)**
Other	–	(2.3)	**(0.1)**
Included in key management personnel's remuneration	(0.9)	(1.4)	**(2.2)**
Pension fund employer contributions	(0.3)	(0.7)	**(1.2)**
Provident fund employer contributions	(0.4)	(0.3)	**(0.6)**
Medical aid employer contributions	(0.2)	(0.4)	**(0.4)**
38.4 Directors' emoluments			
Directors' remuneration	(27.3)	(52.8)	**(96.7)**
Executive directors – fees as directors: salaries and restraint of trade payments	(8.7)	(21.4)	**(35.6)**
Executive directors – fees as directors: fringe benefits	(0.7)	(0.8)	**(0.7)**
Executive directors – fees as directors: bonuses and incentives	(17.2)	(30.0)	**(59.8)**
Non-executive directors – fees as directors	(0.7)	(0.6)	**(0.6)**
Included in directors' remuneration	(2.1)	(2.2)	**(4.2)**
Pension fund employer contributions	(0.7)	(0.8)	**(0.5)**
Provident fund employer contributions	(1.2)	(1.2)	**(3.5)**
Medical aid employer contributions	(0.2)	(0.2)	**(0.2)**
Directors' remuneration and emoluments paid and accrued by:	(27.3)	(52.8)	**(96.7)**
Vodacom Group (Proprietary) Limited	(21.4)	(37.0)	**(77.1)**
Subsidiaries	(5.9)	(15.8)	**(19.6)**

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group purchases or issues financial instruments in order to finance its operations and to manage the interest rate and currency risks that arise from its operations and sources of finance. Various financial assets and liabilities for example trade and other receivables, trade and other payables and provisions, arise directly from the Group's operations. Changing market conditions expose the Group to various financial risks and have highlighted the importance of financial risk management as an element of control for the Group. Principal financial risks faced in the normal course of the Group's business are foreign currency risk, interest rate risk, credit risk, price risk and liquidity risk. These risks are managed within an approved treasury policy, subject to the limitations of the local markets in which the various Group companies operate and the South African Reserve Bank.

The Group finances its operations through a mixture of retained profits, bank borrowings and long-term loans. Long-term financing is arranged locally by the South African entities. A treasury division within Vodacom Group (Proprietary) Limited has been established to provide treasury related services to the Group, including coordinating access to domestic and international financial markets, and the managing of various financial risks relating to the Group's operations. The treasury division is subject to arm's length fees in terms of transfer pricing for services to offshore subsidiaries.

The Group utilises derivative instruments, the objective of which is to reduce exposure to fluctuations in foreign currency rates and interest rates, and to manage the liquidity of cash resources within the Group. Trading in derivative instruments for speculative purposes is strictly prohibited.

Group treasury policies, risk limits and control procedures are continuously monitored by management and the Board of Directors, through the Audit Committee, the objective being to minimise exposure to foreign currency risk, interest rate risk, credit risk and liquidity risk. These risks are managed within an approved treasury policy.

39.1 Foreign currency management

The Group enters into foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a predetermined exchange rate. The contracts are entered into in order to manage the Group's exposure to fluctuations in foreign currency exchange rates on specific transactions. The contracts are matched with anticipated future cash flows in foreign currencies primarily from purchases of capital equipment. The Group's policy is to enter into foreign exchange contracts for 100% of the committed net foreign currency payments from South Africa.

The Group has entered into numerous foreign exchange contracts to cover foreign capital commitments in respect of future imports of GSM infrastructure. The total fair value of foreign exchange contracts at year-end was:

	2004 Rm	2005 Rm	**2006** **Rm**
Foreign currency asset			
To buy	–	25.0	**–**
To sell	1.9	–	**–**
Foreign currency liability			
To buy	(64.5)	–	**(60.9)**
To sell	–	(1.0)	**–**
	(62.6)	24.0	**(60.9)**

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.1 Foreign currency management (continued)

	Foreign contract value Million	Forward Fair value Rm	value Rm
Forward contracts to buy foreign currency			
2004			
United States Dollar	10.6	74.7	(7.0)
Euro	91.7	756.2	(41.4)
Pound Sterling	18.4	230.7	(16.1)
Swiss Franc	0.1	0.5	*
		1,062.1	(64.5)
2005			
United States Dollar	11.8	70.1	3.9
Euro	156.5	1,281.3	14.9
Pound Sterling	45.2	529.1	6.2
Swiss Franc	*	0.1	*
		1,880.6	25.0
2006			
United States Dollar	**7.1**	**45.0**	**(0.7)**
Euro	**154.8**	**1,208.6**	**(34.5)**
Pound Sterling	**41.7**	**477.8**	**(25.7)**
Swiss Franc	*	**0.1**	*
		1,731.5	**(60.9)**
Forward contracts to sell foreign currency			
2004			
United States Dollar	2.2	14.5	0.7
Euro	9.0	70.5	1.2
Pound Sterling	0.2	2.0	*
		87.0	1.9
2005			
United States Dollar	5.5	33.7	(0.7)
Euro	7.1	57.7	(0.3)
Pound Sterling	0.2	2.6	*
		94.0	(1.0)
2006			
United States Dollar	**0.1**	**0.8**	*
Euro	**4.0**	**30.3**	*
Pound Sterling	**0.3**	**3.2**	*
Swiss Franc	*	**0.1**	*
		34.4	*

Forward value represents the foreign contract value multiplied by the contracted forward exchange rate.

** Amounts less than R50 000*

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.1 Foreign currency management (continued)

The Group has various monetary assets and liabilities in currencies other than the Group's functional currency. The following table represents the net currency exposure of the Group according to the different functional currencies of each entity within the Group.

	South African Rand Rm	Euro Rm	Pound Sterling Rm	United States Dollar Rm	Congolese Franc Rm	Swiss Franc Rm	Australian Dollar Rm	Tanzanian Shilling Rm
2004								
Net foreign currency monetary assets/ (liabilities)								
Functional currency of company operation								
South African Rand	–	(145.1)	(0.1)	(30.0)	–	(0.7)	(0.4)	–
United States Dollar	(7.0)	(682.3)	–	–	14.5	–	–	9.8
Mozambican Meticals	(12.5)	–	–	(11.2)	–	–	–	–
	(19.5)	(827.4)	(0.1)	(41.2)	14.5	(0.7)	(0.4)	9.8

	South African Rand Rm	Euro Rm	Pound Sterling Rm	United States Dollar Rm	Congolese Franc Rm	Swiss Franc Rm	Mauritian Rupee Rm	Tanzanian Shilling Rm
2005								
Net foreign currency monetary assets/ (liabilities)								
Functional currency of company operation								
South African Rand	–	(157.0)	(0.4)	(5.3)	–	(0.7)	–	–
United States Dollar	–	(5.0)	–	–	23.8	–	–	–
Tanzanian Shilling	(9.6)	(65.0)	–	45.1	–	(0.1)	–	–
Mozambican Meticals	(12.6)	(1.5)	–	(58.7)	–	–	–	–
	(22.2)	(228.5)	(0.4)	(18.9)	23.8	(0.8)	–	–
2006								
Net foreign currency monetary assets/ (liabilities)								
Functional currency of company operation								
South African Rand	**–**	**(850.5)**	**(330.4)**	**45.0**	**–**	**(0.2)**	**(0.8)**	**–**
United States Dollar	**(55.9)**	**(26.2)**	**–**	**–**	**(11.4)**	**(0.1)**	**0.1**	**37.9**
Tanzanian Shilling	**4.7**	**(13.6)**	**–**	**106.9**	**–**	**–**	**–**	**–**
Mozambican Meticals	**(0.2)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	(51.4)	**(890.3)**	**(330.4)**	**151.9**	**(11.4)**	**(0.3)**	**(0.7)**	**37.9**

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.2 Interest rate risk management

The Group's interest rate profile consisting of fixed and floating rate borrowings which exposes the Group to fair value interest rate risk and cash flow interest rate risk and can be summarised as follows:

	2004 Rm	2005 Rm	**2006 Rm**
Interest rates			
Financial liabilities			
Loans and bank borrowings at fixed rates of interest	1,205.1	1,283.7	**1,134.5**
Bank borrowings linked to money market rates	0.4	0.2	**–**
Bank borrowings linked to South African prime rates	742.2	1,752.0	**1,361.8**
Bank borrowings linked to Lesotho prime rates	21.2	15.5	**7.5**
Loans linked to LIBOR	371.8	1,276.5	**1,286.2**
Loans linked to EURIBOR	488.2	84.3	**58.6**
	2,828.9	4,412.2	**3,848.6**
Financial assets			
Investments and bank deposits at fixed rates of interest	180.7	1,177.1	**168.1**
Investments and bank deposits linked to money market rates	1,473.8	2,017.5	**471.0**
Investments and bank deposits linked to South African prime rates	703.6	829.1	**2,603.1**
Bank deposits linked to Lesotho prime rates	6.3	6.4	**13.5**
Interest rate swaps linked to BA rate	35.9	44.2	**37.6**
Loans and bank deposits linked to LIBOR	449.8	154.4	**94.2**
Deposits linked to EURIBOR	78.3	–	**–**
	2,928.4	4,228.7	**3,387.5**

Maturity of financial instruments exposed to interest rate risk

	2007 Rm	2008 Rm	2009 Rm	2010 Rm	2011 Rm	2012 onwards Rm	Total Rm
Financial liabilities							
Linked to fixed rates	406.2	113.5	192.2	98.6	161.7	162.3	1,134.5
Linked to South African prime rates	1,361.8	–	–	–	–	–	1,361.8
Linked to Lesotho prime rates	7.5	–	–	–	–	–	7.5
Loans linked to LIBOR	1,195.3	–	–	–	–	90.9	1,286.2
Linked to EURIBOR	58.6	–	–	–	–	–	58.6
	3,029.4	113.5	192.2	98.6	161.7	253.2	3,848.6

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.2 Interest rate risk management (continued)

Maturity of financial instruments exposed to interest rate risk (continued)

	2007	2008	2009	2010	2011	2012 onwards	Total
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Financial assets							
Linked to fixed rates	168.1	–	–	–	–	–	168.1
Linked to money market rates	471.0	–	–	–	–	–	471.0
Linked to South African prime rates	2,603.1	–	–	–	–	–	2,603.1
Linked to Lesotho prime rates	13.5	–	–	–	–	–	13.5
Interest rate swaps linked to BA rate	37.6	–	–	–	–	–	37.6
Loans linked to LIBOR	2.1	–	–	–	–	92.1	94.2
	3,295.4	–	–	–	–	92.1	3,387.5

The Group has entered into interest rate swap contracts that entitle, or oblige it to receive interest at a fixed rate on notional principal amounts and entitle, or oblige it to pay interest at floating rates on the same notional principal amounts. The interest rate swaps allow the Group to swap long-term debt from fixed rates into floating rates that are lower, or higher, than those available if it had borrowed at floating rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified quarterly intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

At March 31, 2006 the Group had three interest rate swaps:

Vodacom Group (Proprietary) Limited – the company swapped its fixed interest rate of 14.9% NACQ (Nominal Annual Compounded Quarterly) for a floating rate, linked to the BA (Banker's Acceptance) rate plus margin of 2.0%. The termination date of the agreement is January 30, 2009.

Vodacom (Proprietary) Limited – the company swapped its fixed interest rate of 20.1% NACQ for a floating rate linked to the BA rate plus margin of 2.25%. The termination date of the agreement is August 24, 2012.

Vodacom (Proprietary) Limited – the company swapped its fixed interest rate of 13.3% NACM (Nominal Annual Compounded Monthly) for a floating rate linked to the BA rate plus margin of 2.0%. The termination date of the agreement is December 1, 2012.

	2004	2005	**2006**
	Rm	Rm	**Rm**
Fair value of interest rate swap asset	35.9	44.2	**37.6**

The fair value of the interest rate swap asset is represented by a notional principal amount of R217.7 million (2005: R229.7 million; 2004: R235.0 million) at a weighted average floating interest rate of 9.3% NACM (2005: 10.0%; 2004: 12.9%).

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.3 Credit risk management

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of cash, short-term deposits and trade receivables. The Group's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions. Trade receivables are presented net of an allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and stringent credit approval processes for contracted subscribers. The Group, for its South African operations, spreads its credit risk exposure amongst the high credit quality financial institutions.

The Group does not have any significant exposure to any individual customer or counter-party, except commercially to Telkom SA Limited, Mobile Telecommunications Network (Proprietary) Limited and Cell C (Proprietary) Limited.

With respect to the forward exchange contracts, the Group's exposure is on the full amount of the foreign currency payable on settlement. The Group minimises such risk by limiting the counter-parties to a group of major local and international banks, and does not expect to incur any losses as a result of non-performance by these counter-parties. The positions in respect of these counter-parties are closely monitored.

The carrying amounts of financial assets, excluding foreign currency derivatives and interest rate swaps, included in the consolidated balance sheet represent the Group's exposure to credit risk in relation to these assets. The credit exposure of forward exchange contracts is represented by the fair value of the contracts.

39.4 Price risk management

The Group is exposed to price risk as a result of changes in market prices of financial assets at fair value through profit and loss and market tradable shares available for sale.

39.5 Liquidity risk management

The Group is exposed to liquidity risk as a result of uncertain accounts receivable related cash flows and the capital commitments of the Group. In terms of its borrowing requirements, the Group ensures that adequate funds are available to meet its expected and unexpected financial commitments through utilisation of undrawn borrowing facilities (Note 41). In terms of its long-term liquidity risk, a reasonable balance is maintained between the period over which assets generate funds and the period over which the respective assets are funded.

39.6 Fair value of financial instruments

At the balance sheet date, the carrying amounts of cash and short-term deposits, trade and other receivables, trade and other payables, short-term provisions, dividends payable, bank borrowings and accrued expenses and short-term debt approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair value of forward exchange contracts and interest rate swaps are determined using quoted prices or, where such prices are not available, a discounted cash flow analysis is used. These amounts reflect the approximate values of the derivative positions at balance sheet date.

The fair value of long-term loans and finance leases are determined by discounting contractual cash flows at market related interest rates.

39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

39.7 VM, S.A.R.L. call option

In terms of the shareholders' agreement, the Group's minority shareholder in VM, S.A.R.L., Empresa Moçambicana De Telecommunicaçòes S.A.R.L. ("Emotel") has a call option for a period of four years following the commencement date, August 23, 2003. In terms of the option, Emotel shall be entitled to call on Vodacom International Limited such numbers of shares in and claims on loan account against VM, S.A.R.L. as constitute 25% of the entire issued share capital of that company. Emotel can exercise this option in full increments of 1%. The option can only be exercised on April 1 or October 1 of each calendar year for the duration of the option. The option price is specified in the shareholders agreement. The call option has a nil value at March 31, 2006 (2005: Rnil; 2004: Rnil).

39.8 Smartphone SP (Proprietary) Limited put option

In terms of the shareholders' agreement, the minority shareholders of Smartphone SP (Proprietary) Limited have a put option against Vodacom Group (Proprietary) Limited, should the Group or the company terminate or fail to renew the Service Provider Agreement for any reason other than the expiry or cancellation of the Group's South African licence. The put option has a nil value at March 31, 2006, 2005 and 2004 as the conditions set out in the agreement have not been met.

39.9 Smartcom (Proprietary) Limited put option

In terms of the agreement between Vodacom Group (Proprietary) Limited ("the Group"), Smartphone SP (Proprietary) Limited ("Smartphone") and the minority shareholders of Smartcom (Proprietary) Limited ("Smartcom"), the minority shareholders of Smartcom have a put option against the Group, should the Group reduce the standard service provider discount below certain percentages as stipulated in the put option agreement. The put option has a nil value at March 31, 2006 (2005: Rnil) as the conditions set out in the agreement have not been met.

39.10 Skyprops 134 (Proprietary) Limited call option

In terms of the call option agreement between Vodacom Group (Proprietary) Limited ("Vodacom Group"), FirstRand Bank Limited ("FirstRand"), Vodacom (Proprietary) Limited ("Vodacom") and Skyprops 134 (Proprietary) Limited ("company"), FirstRand grants to Vodacom Group an irrevocable call option to require FirstRand at any time to sell the shares in and claims against the company to Vodacom Group. Vodacom Group gave notice to exercise the option during the financial year ended March 31, 2006.

39.11 Congolese Wireless Network s.p.r.l. ("CWN") put option

In terms of a shareholders agreement, the Group's joint venture partner in Vodacom Congo (RDC) s.p.r.l., Congolese Wireless Network s.p.r.l. ("CWN") has a put option which comes into effect three years after the commencement date, December 1, 2001, and for a maximum of five years thereafter. In terms of the option, CWN shall be entitled to put to Vodacom International Limited such number of shares in and claims on loan account against Vodacom Congo (RDC) s.p.r.l. as constitute 19% of the entire issued share capital of that company. CWN can exercise this option in a maximum of three tranches and each tranche must consist of at least 5% of the entire issued share capital of Vodacom Congo (RDC) s.p.r.l. The option price will be the fair market value of the related shares at the date the put option is exercised. The option has a nil value at March 31, 2006, 2005 and 2004.

39.12 Cointel VAS (Proprietary) Limited

In terms of the sale of shares agreement between Vodacom Group (Proprietary) Limited ("Vodacom Group") and the sellers of shares in Cointel VAS (Proprietary) Limited ("Cointel"), the sellers have been granted a put option that requires Vodacom Group to purchase all (and not part only) of the sellers' shares in Cointel. The sellers will only be capable to exercise the put option if the recharge agreement with Vodacom (Proprietary) Limited is not continued after August 31, 2008 on terms and conditions reasonably acceptable to the sellers. The put option has a nil value at March 31, 2006 as the conditions set out in the agreement have not been met.

40. GOODWILL IMPAIRMENT TEST

The Group periodically evaluates its non-current assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Group's judgements regarding the existence of impairment indicators are based on market conditions and operational performance of the business. Future events could cause management to conclude that impairment indicators exist.

Goodwill impairment tests are performed annually in terms of IFRS 3: Business Combinations ("IFRS 3") to compare the fair value of each of the cash generating units to its carrying amount. Goodwill impairment testing is conducted at cash generating unit levels of the business and is based on a cash flow-based valuation model to determine the fair value of the cash generating unit. The assumptions used in estimating future cash flows were based upon the business forecasts and incorporated external information from industry sources, where applicable. Changes in certain of these estimates could have an effect on the estimated fair value of the cash generating unit. Judgements in estimating discounted cash flows also include the selection of the pre-tax discount rate (weighted average cost of capital) to be used in the valuation model. The discount rate used in the valuation model considered a targeted debt and equity mix, a market risk premium, and other factors considered with valuation methodologies.

Based on the results of the impairment evaluation described above, the recorded goodwill was not impaired as the fair value of each reporting unit exceeded the carrying value. Minor changes to the valuation model would not significantly impact the results of the valuation; however, if future cash flows were materially different to the forecasts, then the assessment of the potential impairment of the carrying value may be impacted.

Goodwill has been allocated for impairment testing purposes to six cash generating units of which four are in South Africa, one in the Democratic Republic of the Congo and one in Tanzania.

South Africa

The recoverable amounts of goodwill relating to Vodacom Service Provider Company (Proprietary) Limited, Smartphone SP (Proprietary) Limited, Smartcom (Proprietary) Limited and Cointel VAS (Proprietary) Limited have been determined on the basis of value in use calculations. These companies operate in the same economic environment for which the same key assumptions were used. These value in use calculations use cash flow projections based on financial budgets approved by management covering a four to five year period and discount rates of between 10.6% and 14.9% in Rand terms. None of the cash flows were extrapolated beyond a five year period and therefore no nominal growth rates are applicable. Cash flow projections during the budget period for these companies are also based on the same expected growth in operating profit and earnings before interest, taxation, depreciation and amortisation ("EBITDA"). Management believes that any reasonable change in any of these key assumptions would not cause the aggregate carrying amount of these companies to exceed the aggregate recoverable amount of these units.

Democratic Republic of Congo

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Congo (RDC) s.p.r.l. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 19.3% in US Dollar terms. Cash flows beyond this period have been extrapolated using annual nominal growth rates of between 2.5% and 4.4%. Management believes that these growth rates do not exceed the long-term average growth rate for the market in which this company operates. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

Tanzania

The recoverable amount of this cash generating unit was based on a value in use calculation for Vodacom Tanzania Limited. The calculation uses cash flow projections based on financial budgets approved by management covering a five year period and a discount rate of 14.6% in US Dollar terms. Cash flows were not extrapolated beyond this initial five year period and therefore no nominal growth rate is applicable. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

40. GOODWILL IMPAIRMENT TEST (continued)

March 31, 2006	South Africa Rm	Democratic Republic of Congo Rm	Tanzania Rm
Carrying amount of goodwill	374.3	102.6	7.0
Key assumption	**Expected customer base**	**Expected customer base**	**Expected customer base**
Basis for determining value(s) assigned to key assumptions	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience, except for potential growth. Growth is based on market expectation.
Key assumption	**ARPU**	**ARPU**	**ARPU**
Basis for determining value(s) assigned to key assumptions	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.	Closing customer base in the period immediately preceding the budget period increased for expected growth. Value assigned to key assumption reflects past experience. Growth is based on expected market forces and external sources of information.
Key assumption	**Gross margin**	**Gross margin**	**Gross margin**
Basis for determining value(s) assigned to key assumptions	Average gross margin achieved in period immediately before the budget period, increased for expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.	Average gross margin achieved in period immediately before the budget period, increased expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.	Average gross margin achieved in period immediately before the budget period, increased expected efficiency improvements. Value assigned to key assumption reflects past experience, except for efficiency improvements.

40. GOODWILL IMPAIRMENT TEST (continued)

March 31, 2006	South Africa	Democratic Republic of Congo	Tanzania
Key assumption Basis for determining value(s) assigned to key assumptions	**Capital expenditure** Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on managements expected network coverage roll out.	**Capital expenditure** Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on managements expected network coverage roll out.	**Capital expenditure** Total capital expenditure achieved in period immediately before the budget period, adjusted for expected network coverage roll out. Value assigned based on managements expected network coverage roll out.
Key assumption Basis for determining value(s) assigned to key assumptions		**ZAR/USD exchange rate during the five-year budget period** Average market forward exchange rate over the budget period. Value assigned to key assumption is consistent with external sources of information.	**ZAR/TZS and USD/TZS exchange rates during the five-year budget period** Average market forward exchange rate over the budget period. Value assigned to key assumption is consistent with external sources of information.

41. UNDRAWN BORROWING FACILITIES AND GUARANTEES

41.1 Rand denominated facilities and guarantees

The Group has Rand denominated credit facilities totalling R7,083.0 million with R1,114.0 million utilised at March 31, 2006. The facilities are uncommitted and can also be utilised for loans to foreign entities and are subject to review at various dates (usually on an annual basis). Certain of the facilities are still subject to the Group's final acceptance.

Guarantor	Details	Beneficiary	2004 Rm	2005 Rm	**2006 Rm**
Vodacom (Proprietary) Limited	All guarantees less than R2.0 million.	Various	3.0	2.8	**2.6**
Vodacom Service Provider Company (Proprietary) Limited	All guarantees less than R2.0 million.	Various	3.1	3.0	**2.8**
Vodacom Service Provider Company (Proprietary) Limited	Guarantee in respect of receipt by independent intermediaries of premiums on behalf of short-term insurers and Lloyd's underwriters, and relating to short-term insurance business carried on in South Africa. Terminates on May 31, 2006.	SA Insurance Association for benefit of insurers	14.2	17.8	**21.1**
Smartcom (Proprietary) Limited	Guarantees for salary bank account and debit orders.	Various	–	3.0	**2.9**
			20.3	26.6	**29.4**

41.2 Foreign denominated facilities and guarantees

The following foreign denominated facilities are in place:

Company	Details	**As at March 31 2006 Million Total facility**	**As at March 31 2006 Million Utilised**
Vodacom Tanzania Limited	Project finance	**US$29.7**	**US$29.7**
Vodacom International Limited	Revolving term loan	**US$180.0**	**US$180.0**
Vodacom Congo (RDC) s.p.r.l.	Various	**US$5.0**	**US$5.0**
Vodacom Lesotho (Proprietary) Limited	Overdraft facilities with various banks	**M47.0**	**M0.0**
VM, S.A.R.L.	Overdraft facility	**US$0.5**	**US$0.0**

41. UNDRAWN BORROWING FACILITIES AND GUARANTEES (continued)

41.2 Foreign denominated facilities and guarantees (continued)

Guarantor/Issuer	Details	Beneficiary	Currency	2004 Rm	2005 Rm	**2006 Rm**
Nedbank Limited on behalf of Vodacom (Proprietary) Limited	Unsecured standby letters of credit	Alcatel CIT	€11.4 million (2005: €40.7 million; 2004: €25.2 million)	194.6	330.0	**85.7**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of of Vodacom Congo (RDC) s.p.r.l.*	ABSA	€nil (2005: €nil; 2004: €53.8 million)	415.6	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.'s revolving credit facility*	ABSA	US$nil (2005: US$nil; 2004: US$32.0 million)	202.1	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.*	Standard Finance (Isle of Man) Limited	€nil (2005: €nil; 2004: €22.5 million)	173.8	–	**–**
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.*	Standard Finance (Isle of Man) Limited	US$nil (2005: US$nil; 2004: US$37.5 million)	236.8	–	–
Vodacom Group (Proprietary) Limited	Guarantees issued for the obligations of Vodacom International Limited's term loan facility*#	Standard Bank London Limited and RMB International (Dublin) Limited	US$180.0 million (2005: US$180.0 million; 2004: US$nil)	–	1,128.8	**1,114.4**
Vodacom International Limited	Guarantees issued for the obligations of Vodacom Congo (RDC) s.p.r.l.*	Alcatel CIT	€5.0 million (2004 €15.0 million; 2004:€ 25.0 million)	193.1	121.6	**37.6**
				1,416.0	1,580.4	**1,237.7**

The following foreign denominated guarantees have been issued:

** Foreign denominated guarantees amounting to R1,152.0 million (2005: R1,189.6 million; 2004: R622.3 million) issued in support of Vodacom Congo (RDC) s.p.r.l. are included as liabilities in the consolidated balance sheet.*

 # The Group is in compliance with the covenants attached to the term loan facility.

Vodacom (Proprietary) Limited provides an unlimited guarantee for borrowings entered into by Vodacom Group (Proprietary) Limited.

42. SEGMENTAL INFORMATION

The Group is primarily an integrated mobile telecommunication and data communication business located in South Africa and other African countries. The primary reporting format therefore comprises the geographic segments of the Group. The Group's two reportable segments are South Africa and other African countries, which represents the aggregate of the various African operating segments.

2004	South Africa Rm	Other African countries Rm	Eliminations Rm	Total Rm
Geographical segments				
Segment revenue	21,369.8	1,496.8	(11.4)	22,855.2
External	21,358.4	1,496.8	–	22,855.2
Inter-segment	11.4	–	(11.4)	–
Segment profit/(loss) from operations	5,296.8	(65.2)	(6.4)	5,225.2
Interest, dividends and other financial income				656.6
Finance costs				(1,107.5)
Profit before taxation				4,774.3
Included in segment profit/(loss) from operations				
Depreciation and amortisation	(2,259.2)	(266.1)	(6.4)	(2,531.7)
Property, plant and equipment	(2,062.6)	(254.3)	–	(2,316.9)
Intangible assets	(196.6)	(11.8)	(6.4)	(214.8)
Bad debts written off	(23.5)	(25.3)	–	(48.8)
Capital expenditure	(1,666.3)	(1,345.5)	–	(3,011.8)
Property, plant and equipment	(1,659.3)	(1,231.4)	–	(2,890.7)
Intangible assets	(7.0)	(114.1)	–	(121.1)
Assets				
Segment assets	18,958.5	3,350.9	(2,413.2)	19,896.2
Deferred taxation assets				277.8
				20,174.0
Liabilities				
Segment liabilities	(8,054.9)	(2,427.4)	674.6	(9,807.7)
Deferred taxation liabilities				(410.1)
Taxation liabilities				(852.0)
Dividends payable				(1,500.0)
				(12,569.8)

42. SEGMENTAL INFORMATION (continued)

2005	South Africa Rm	Other African countries Rm	Eliminations Rm	Total Rm
Geographical segments				
Segment revenue	25,049.4	2,270.5	(4.6)	27,315.3
External	25,044.8	2,270.5	–	27,315.3
Inter-segment	4.6	–	(4.6)	–
Segment profit/(loss) from operations	5,492.1	(175.1)	1,161.2	6,478.2
Interest, dividends and other financial income				662.8
Finance costs				(641.7)
Profit before taxation				6,499.3
Included in segment profit/(loss) from operations				
Depreciation and amortisation	(2,380.5)	(462.7)	–	(2,843.2)
Property, plant and equipment	(1,974.3)	(439.3)	–	(2,413.6)
Intangible assets	(406.2)	(23.4)	–	(429.6)
Bad debts written off	(19.1)	(33.1)	–	(52.2)
Impairment of assets	(1,161.2)	(268.4)	1,161.2	(268.4)
Capital expenditure	(2,799.8)	(694.0)	–	(3,493.8)
Property, plant and equipment	(2,617.1)	(671.3)	–	(3,288.4)
Intangible assets	(182.7)	(22.7)	–	(205.4)
Assets				
Segment assets	20,180.7	3,851.9	(1,745.9)	22,286.7
Deferred taxation assets				308.1
				22,594.8
Liabilities				
Segment liabilities	(9,430.5)	(3,376.7)	1,005.0	(11,802.2)
Deferred taxation liabilities				(472.1)
Taxation liabilities				(632.6)
Dividends payable				(1,800.0)
				(14,706.9)

42. SEGMENTAL INFORMATION (continued)

2006	South Africa Rm	Other African countries Rm	Eliminations Rm	**Total Rm**
Geographical segments				
Segment revenue	31,101.3	2,974.0	(32.8)	**34,042.5**
External	31,081.7	2,960.8	–	**34,042.5**
Inter-segment	19.6	13.2	(32.8)	**–**
Segment profit/(loss) from operations	8,841.6	261.2	(237.1)	**8,865.7**
Interest, dividends and other financial income				**659.3**
Finance costs				**(1,318.2)**
Profit before taxation				**8,206.8**
Included in segment profit/(loss) from operations				
Depreciation and amortisation	(2,454.2)	(541.6)	–	**(2,995.8)**
Property, plant and equipment	(2,128.6)	(523.0)	–	**(2,651.6)**
Intangible assets	(325.6)	(18.6)	–	**(344.2)**
Bad debts written off	(32.4)	(9.9)	–	**(42.3)**
Impairment of assets	(270.0)	52.8	270.0	**52.8**
Capital expenditure	(4,435.6)	(742.1)	–	**(5,177.7)**
Property, plant and equipment	(3,976.9)	(722.5)	–	**(4,699.4)**
Intangible assets	(458.7)	(19.6)	–	**(478.3)**
Assets				
Segment assets	22,340.6	4,030.3	(1,900.7)	**24,470.2**
Deferred taxation assets				**297.6**
				24,767.8
Liabilities				
Segment liabilities	(9,654.7)	(3,558.1)	1,149.8	**(12,063.0)**
Deferred taxation liabilities				**(602.3)**
Taxation liabilities				**(630.2)**
Dividends payable				**(2,800.0)**
				(16,095.5)

42. SEGMENTAL INFORMATION (continued)

2004	Unallocated Rm	Networks Rm	Service providers Rm	Other Rm	Eliminations Rm	Total Rm
Business segments						
Segment revenue	–	20,787.9	5,526.1	174.2	(3,633.0)	22,855.2
External	–	20,787.9	1,939.8	127.5	–	22,855.2
Inter-segment	–	–	3,586.3	46.7	(3,633.0)	–
Segment profit/(loss) from operations	26.7	4,876.1	614.1	(114.8)	(176.9)	5,225.2
Interest, dividends and other financial income						656.6
Finance costs						(1,107.5)
Profit before taxation						4,774.3
Included in segment profit/(loss) from operations						
Depreciation and amortisation	(3.3)	(2,222.9)	(114.0)	(1.4)	(190.1)	(2,531.7)
Property, plant and equipment	(3.3)	(2,204.4)	(108.0)	(1.2)	–	(2,316.9)
Intangible assets	–	(18.5)	(6.0)	(0.2)	(190.1)	(214.8)
Bad debts written off	–	(30.9)	(17.9)	–	–	(48.8)
Capital expenditure	(4.1)	(2,934.1)	(72.3)	(1.3)	–	(3,011.8)
Property, plant and equipment	(4.1)	(2,820.0)	(65.3)	(1.3)	–	(2,890.7)
Intangible assets	–	(114.1)	(7.0)	–	–	(121.1)
Assets						
Segment assets	9,991.1	16,775.5	3,606.5	1,651.1	(12,128.0)	19,896.2
Deferred taxation assets						277.8
						20,174.0
Liabilities						
Segment liabilities	(2,531.2)	(13,332.9)	(3,734.6)	(327.4)	10,118.4	(9,807.7)
Deferred taxation liabilities						(410.1)
Taxation liabilities						(852.0)
Dividends payable						(1,500.0)
						(12,569.8)

42. SEGMENTAL INFORMATION (continued)

2005	Unallocated Rm	Networks Rm	Service providers Rm	Other Rm	Eliminations Rm	Total Rm
Business segments						
Segment revenue	–	24,926.3	6,734.4	135.2	(4,480.6)	27,315.3
External	–	24,950.3	2,274.4	90.6	–	27,315.3
Inter-segment	–	(24.0)	4,460.0	44.6	(4,480.6)	–
Segment profit/(loss) from operations	(1,123.7)	5,749.8	841.4	(318.8)	1,329.5	6,478.2
Interest, dividends and other financial income						662.8
Finance costs						(641.7)
Profit before taxation						6,499.3
Included in segment profit/(loss) from operations						
Depreciation and amortisation	(3.6)	(2,508.7)	(140.9)	(1.2)	(188.8)	(2,843.2)
Property, plant and equipment	(3.6)	(2,335.5)	(73.3)	(1.2)	–	(2,413.6)
Intangible assets	–	(173.2)	(67.6)	–	(188.8)	(429.6)
Bad debts written off	–	(33.1)	(19.1)	–	–	(52.2)
Impairment of assets	(1,161.2)	(268.4)	–	(355.1)	1,516.3	(268.4)
Capital expenditure	(22.9)	(3,385.0)	(85.5)	(0.4)	–	(3,493.8)
Property, plant and equipment	(22.9)	(3,217.4)	(47.7)	(0.4)	–	(3,288.4)
Intangible assets	–	(167.6)	(37.8)	–	–	(205.4)
Assets						
Segment assets	8,624.2	17,530.3	6,854.8	2,399.1	(13,121.7)	22,286.7
Deferred taxation assets						308.1
						22,594.8
Liabilities						
Segment liabilities	(2,160.9)	(13,564.9)	(6,784.7)	(1,481.7)	12,190.0	(11,802.2)
Deferred taxation liabilities						(472.1)
Taxation liabilities						(632.6)
Dividends payable						(1,800.0)
						(14,706.9)

42. SEGMENTAL INFORMATION (continued)

2006	Unallocated Rm	Networks Rm	Service providers Rm	Other Rm	Eliminations Rm	**Total Rm**
Business segments						
Segment revenue	274.2	30,403.9	9,384.5	139.6	(6,159.7)	**34,042.5**
External	–	30,398.9	3,549.2	94.4	–	**34,042.5**
Inter-segment	274.2	5.0	5,835.3	45.2	(6,159.7)	**–**
Segment profit/(loss) from operations	(483.5)	5,731.2	1,428.2	(126.3)	2,316.1	**8,865.7**
Interest, dividends and other financial income						**659.3**
Finance costs						**(1,318.2)**
Profit before taxation						**8,206.8**
Included in segment profit/(loss) from operations						
Depreciation and amortisation	(2.7)	(2,789.6)	(203.2)	(0.3)	–	**(2,995.8)**
Property, plant and equipment	(2.8)	(2,564.3)	(84.2)	(0.3)	–	**(2,651.6)**
Intangible assets	0.1	(225.3)	(119.0)	–	–	**(344.2)**
Bad debts written off	–	(10.0)	(32.1)	(0.2)	–	**(42.3)**
Impairments of assets	270.0	52.8	–	93.8	(363.8)	**52.8**
Capital expenditure	(52.7)	(4,945.2)	(130.4)	(49.4)	–	**(5,177.7)**
Property, plant and equipment	(16.5)	(4,521.0)	(112.5)	(49.4)	–	**(4,699.4)**
Intangible assets	(36.2)	(424.2)	(17.9)	–	–	**(478.3)**
Assets						
Segment assets	5,784.1	20,049.4	5,368.3	2,550.1	(9,281.7)	**24,470.2**
Deferred taxation assets						**297.6**
						24,767.8
Liabilities						
Segment liabilities	(8,156.6)	(12,089.2)	(4,793.0)	(1,395.9)	14,371.7	**(12,063.0)**
Deferred taxation liabilities						**(602.3)**
Taxation liabilities						**(630.2)**
Dividends payable						**(2,800.0)**
						(16,095.5)

"South Africa", which is also the home country of the parent, comprises the segment information relating to the South African-based cellular network as well as all the segment information of the service providers and other business segments.

"Other African countries" comprise only of cellular networks and are located in Tanzania, Lesotho, Democratic Republic of Congo and Mozambique, and it also includes the international holding company situated in Mauritius.

42. SEGMENTAL INFORMATION (continued)

"Unallocated" comprises the reporting relevant to Vodacom Group (Proprietary) Limited, the parent company in the Group. This company is primarily a management services company, that offers combined administrative, advisory and management services to companies within the rest of the Group.

"Networks" comprise services provided by cellular networks within South Africa and other African countries. Services offered by the companies include the standard voice telecommunication services of cellular networks as well as data communication services through the cellular network, including short message servicing ("SMS"), wireless application protocol ("WAP"), general packet radio system ("GPRS") and multimedia messaging services ("MMS").

"Service providers" comprise services provided by cellular telecommunication service providers within South Africa. Cellular telecommunication service providers act as agents for the respective networks and on sells airtime to customers.

"Other" comprises of other companies and business lines of the Group which do not fall within the Group's strategic focus and do not constitute a separately reportable segment.

Accounting policies and basis of preparation

Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Segment revenue excludes Value Added Taxation and includes inter-Group revenue. Net revenue represents segment revenue from which inter-Group revenue has been eliminated. Sales between segments are made on a commercial basis. Segment profit/(loss) from operations represents segment revenue less segment operating expenses. Segment expenses include direct and operating expenses. Integration costs, disposals of operations and impairments, depreciation and amortisation have been allocated to the segments to which they relate.

The segment assets and liabilities comprise all assets and liabilities of the different segments that are employed by the segment and that either are directly attributable to the segment, or can be allocated to the segment on a reasonable basis. Unallocated assets and liabilities comprise of deferred taxation and other unallocatable balances.

Capital expenditure in property, plant and equipment, investment properties and intangible assets has been allocated to the segments to which they relate.

Segment results and segment assets have been adjusted for the changes in accounting policies reflected in Note 23.

43. INTEREST IN SUBSIDIARIES

The information discloses interests in subsidiaries material to the financial position of the Group. The interest in the ordinary share capital is representative of the voting power.

RSA – Republic of South Africa; TZN – Tanzania; LES – Lesotho; MZ – Mozambique; MAU – Mauritius; C – Cellular; S – Satellite; MSC – Management services company; PROP – Property company; OTH – Other

43. INTEREST IN SUBSIDIARIES (continued)

	Country of incorporation	Issued share capital			Interest in issued ordinary share capital		
		2004	2005	**2006**	2004 %	2005 %	**2006 %**
Cellular network operators							
Vodacom (Proprietary) Limited (C)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Lesotho (Proprietary) Limited (C)	LES	M4,180	M4,180	**M4,180**	88.3	88.3	**88.3**
Vodacom Tanzania Limited (C)	TZN	US$100	TZS10,000	**TZS10,000**	65	65	**65**
VM, S.A.R.L. (C)#	MZ	US$60,000,000	US$60,000,000	**US$60,000,000**	98	98	**98**
Vodacom Congo (RDC) s.p.r.l (C)	DRC	–	US$1,000,000	**US$1,000,000**	–	51	**51**
Service providers							
Vodacom Service Provider Company (Proprietary) Limited (C)	RSA	R20	R20	**R20**	100	100	**100**
Smartphone SP (Proprietary) Limited (C)	RSA	R20,000	R20,000	**R20,000**	51	51	**51**
Smartcom (Proprietary) Limited (C)	RSA	–	R1,000	**R1,000**	–	43.7	**43.7**
Cointel VAS (Proprietary) Limited (C)	RSA	–	–	**R10,204**	–	–	**51**
Other							
VSP Holdings (Proprietary) Limited (MSC)	RSA	R1,020	R1,020	**R1,020**	100	100	**100**
Vodacom Satellite Services (Proprietary) Limited (S)*	RSA	R100	R100	**R100**	100	100	**100**
GSM Cellular (Proprietary) Limited (C)*	RSA	R1,200	R1,200	**R1,200**	100	100	**100**
Vodacom Venture No. 1 (Proprietary) Limited (MSC)*	RSA	R158,999	R810	**R810**	100	100	**100**
Vodacom Equipment Company (Proprietary) Limited*	RSA	R100	R100	**R100**	100	100	**100**
Vodacare (Proprietary) Limited (C)*	RSA	R100	R100	**R100**	100	100	**100**
Vodacom International Holdings (Proprietary) Limited (MSC)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom International Limited (MSC)	MAU	US$100	US$100	**US$100**	100	100	**100**
Vodacom Properties No. 1 (Proprietary) Limited (PROP)	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Properties No. 2 (Proprietary) Limited (PROP)	RSA	–	R1,000	**R1,000**	–	100	**100**
Stand 13 Eastwood Road Dunkeld West (Proprietary) Limited (PROP)	RSA	R100	R100	**R100**	51	51	**51**
Ithuba Smartcall (Proprietary) Limited (OTH)	RSA	R100	R100	**R100**	26.5	26.5	**26.5**
Vodacom Tanzania Limited (Zanzibar)*	TZN	TZS10,000	TZS10,000	**TZS10,000**	100	100	**100**
Joycell Shops (Proprietary) Limited*	RSA	R100	R100	**R100**	100	100	**100**
Vodacom Ventures (Proprietary) Limited (OTH)	RSA	–	–	**R100**	–	–	**100**

** Dormant as at March 31, 2006.*
 # The issued share capital of the prior years have been restated as a result of the shareholders loan to VM, S.A.R.L. being converted retrospectively into share capital.

44. INTEREST IN JOINT VENTURES

The Group's joint ventures during the 2004 financial year consisted of Vodacom Congo (RDC) s.p.r.l. The Group acquired its interest in Vodacom Congo (RDC) s.p.r.l. on December 11, 2001. During the previous financial year the shareholders' agreement was renegotiated resulting in Vodacom Congo (RDC) s.p.r.l. considered to be a 51% owned subsidiary (Note 30).

	2004 Vodacom Congo (RDC) s.p.r.l	2005 Vodacom Congo (RDC) s.p.r.l	**2006 Vodacom Congo (RDC) s.p.r.l**
Interest held	51%	–	**–**
	Rm	Rm	**Rm**
The Group's proportionate share of assets and liabilities:			
Property, plant and equipment	620.6	–	**–**
Intangible assets*	106.0	–	**–**
Deferred taxation asset	100.2	–	**–**
Current assets	195.2	–	**–**
	1,022.0	–	**–**
Long-term liabilities	–	–	**–**
Preference shares	(243.1)	–	**–**
Current liabilities	(936.3)	–	**–**
Net liabilities	(157.4)	–	**–**
The Group's proportionate share of revenue and expenditure:			
Revenue	475.9	–	**–**
Loss before taxation after reclassification of preference share dividends*	(128.1)	–	**–**
Taxation	113.8	–	**–**
Net loss*	(14.3)	–	**–**
The Group's proportionate share of cash flows:			
Net cash flows from operating activities	13.0	–	**–**
Net cash flows utilised in investing activities	(359.4)	–	**–**
Net cash flows from financing activities	365.4	–	**–**
Net cash flow	19.0	–	**–**
The Group's proportionate share of contingent liabilities and capital commitments:			
Contingent liabilities (Note 35)	–	–	**–**
Capital commitments	145.2	–	**–**

* *Goodwill and goodwill amortisation was restated to closing rate and average rate in accordance with the Group's change in accounting policy as a result of the adoption of IAS 21: The Effects of Foreign Exchange Rates ("IAS 21"). Intangible assets have accordingly been restated.*

45. US GAAP INFORMATION

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which differs in certain respects from Generally Accepted Accounting Principles in the United States ("US GAAP"). The effect of applying US GAAP principles to net profit and shareholders' equity is set out below along with an explanation of applicable differences between IFRS and US GAAP:

	Notes	2004 Restated Rm	2005 Restated Rm	**2006 Rm**
Net profit as reported in accordance with IFRS – restated		3,052.3	3,886.3	**5,129.0**
Attributable to minority interests	(j)	(26.2)	(30.8)	**(116.7)**
Net profit attributable to equity shareholders		3,026.1	3,855.5	**5,012.3**
Adjustments increasing/(decreasing) net profit:				
Deferred bonus incentive scheme	(a)	8.6	15.5	**5.2**
Goodwill – non-amortisation	(b)	93.5	–	**–**
Business combinations	(m)	4.8	(4.8)	**–**
Derivative financial instruments – reclassification of transition adjustments	(e)	7.8	7.8	**7.8**
Income taxation – other differences	(f)	(144.4)	(99.0)	**(199.3)**
Normal income taxation effect of US GAAP adjustments	(g)	(6.3)	(5.9)	**(4.0)**
Foreign exchange translation on net investment in foreign operations	(k)	–	1.0	**2.5**
Impairment reversal		–	–	**(59.9)**
Net profit in accordance with US GAAP – restated		2,990.1	3,770.1	**4,764.6**
Shareholders' equity as reported in accordance with IFRS – restated		7,604.2	7,887.9	**8,672.3**
Adjustments increasing/(decreasing) shareholders' equity:				
Deferred bonus incentive scheme	(a)	35.8	51.3	**56.5**
Goodwill – amortisation of taxation rate difference	(f)	(17.7)	(17.7)	**(17.7)**
Goodwill – non-amortisation	(b)	194.5	194.6	**194.6**
Goodwill – accumulated translation differences	(c)	(7.0)	(10.3)	**(10.6)**
Minority interest	(j)	(93.0)	(128.7)	**(283.3)**
Business combinations	(m)	4.8	–	**–**
Income taxation – other differences	(f)	(981.5)	(1,079.9)	**(1,278.6)**
Normal income taxation effect of US GAAP adjustments	(g)	(12.2)	(15.5)	**(16.5)**
Impairment reversal		–	–	**(59.9)**
Shareholders' equity in accordance with US GAAP – restated		6,727.9	6,881.7	**7,256.8**
Movements in shareholders' equity in accordance with US GAAP				
Balance at the beginning of the year		6,032.6	6,727.9	**6,881.7**
Net profit for the year		2,990.1	3,770.1	**4,764.6**
Dividends declared		(2,100.0)	(3,400.0)	**(4,500.0)**
Foreign currency translation reserve adjustment		(190.0)	(60.2)	**115.4**
Acquired reserves from the minorities of Vodacom Congo (RDC) s.p.r.l.		–	(151.3)	**–**
Gain on derivatives – reclassified to earnings, net of taxation		(4.8)	(4.8)	**(4.9)**
Balance at the end of the year		6,727.9	6,881.7	**7,256.8**

45. US GAAP INFORMATION (continued)

Summary of differences between IFRS and US GAAP

(a) Deferred bonus incentive scheme

Under IFRS, the total value of deferred bonus entitlements as calculated at the end of each financial period is based on the net present value of expected future cash payments as determined under the bonus formula over the vesting period.

Under US GAAP, in accordance with FIN 28: "Accounting for Stock Appreciation Rights and Other Variable Stock Option Awards Plans an Interpretation of APB Opinions No. 15 and 25", compensation cost is recognised over the service period or the vesting period if the service period is not defined, based upon the undiscounted value of the entitlements.

(b) Goodwill – non-amortisation

The Group adopted IFRS 3: Business Combinations ("IFRS 3") from April 1, 2004, under which acquired goodwill is no longer amortised, but tested for impairment at least annually (or more frequently if impairment indicators arise). Accordingly, goodwill arising from the Group's investments is not subject to amortisation as from April 1, 2004.

Under US GAAP, SFAS 142: Goodwill and Other Intangible Assets ("SFAS 142") is consistent with IAS 38: Intangible Assets ("IAS 38") and IFRS 3 which was adopted by the Group from April 1, 2004. From this date goodwill is no longer amortised.

(c) Goodwill – translation of goodwill arising on the acquisition of a foreign entity

Under IFRS and US GAAP, goodwill arising on the acquisition of a foreign entity is treated as an asset of the entity and translated at the foreign exchange rate ruling at the balance sheet date. The resulting foreign exchange transaction gain or loss is recorded in equity. The difference in the carrying values of goodwill under IFRS and US GAAP which are summarised below, results in a difference in the accumulated translation amount recorded in equity

	2004 Rm	2005 Rm	**2006** **Rm**
A reconciliation of goodwill reported under IFRS at the balance sheet date to the amounts determined under US GAAP is as follows:			
Included in total goodwill reported under IFRS – restated	344.3	413.5	**483.9**
Goodwill not amortised under US GAAP	194.5	205.0	**205.0**
Business combination (Note 45 m)	136.0	136.0	**136.0**
Additional goodwill – income taxation rate change (Note 45 f)	35.8	71.5	**50.5**
Translation difference on goodwill balance	(7.0)	(10.3)	**(10.6)**
Goodwill in joint venture (Note 45 i)	(61.2)	–	**–**
As adjusted under US GAAP	642.4	815.7	**864.8**

(d) Income taxes – additional temporary differences

Under IFRS, no deferred taxation liability was recognised in respect of intangible assets acquired other than in a business combination where there was a difference at the date of acquisition between the assigned values and the taxation bases of the assets.

Under US GAAP, a deferred taxation liability (and corresponding increase in assets acquired) is recognised for all temporary differences between the assigned values and the taxation bases of intangible assets acquired. The recording of such deferred taxation liability has no net impact on net income or shareholder's equity as determined under US GAAP as the decrease in income taxation expense is offset by a corresponding increase in amortisation (Note 45 g).

45. US GAAP INFORMATION (continued)

(e) Derivative financial instruments

The Group adopted IAS 39: Financial Instruments – Recognition and Measurement ("IAS 39") and SFAS 133: Accounting for Derivative Instruments and Hedging Activities ("SFAS 133") on April 1, 2001.

Under IFRS, upon adoption of IAS 39 the difference between previous carrying amounts and the fair value of derivatives, which prior to the adoption of IAS 39 had been designated as either fair value or cash flow hedges but do not qualify as hedges under IAS 39, is recognised as an adjustment of the opening balance of retained earnings at the beginning of the financial year IAS 39 is initially applied. Changes in fair value of derivatives acquired after April 1, 2001 are recorded in the consolidated income statement.

Under US GAAP, upon adoption of SFAS 133, the difference between previous carrying amounts and fair value of derivatives, which prior to the adoption of SFAS 133 had been cash flow type hedges but do not qualify as hedges under SFAS 133, is recognised as a cumulative effect adjustment of other comprehensive income in the year SFAS 133 is initially applied. This amount is subsequently released into earnings in the same period or periods during which the hedged transaction affects earnings. During the year ended March 31, 2006 R7.8 million (2005: R7.8 million; 2004: R7.8 million) was released into earnings. The difference between previous carrying amounts and fair value of derivatives, which prior to the adoption of SFAS 133 had been fair value type hedges, is recognised as a cumulative effect adjustment in earnings. Changes in fair value of derivatives acquired after April 1, 2001 are recorded in the consolidated income statement.

The Group's interest rate swaps are classified as trading instruments under IFRS. Under US GAAP, such swaps are classified based on the maturity date of the swaps. Accordingly, some swaps are classified as long term under US GAAP.

(f) Income taxation – other differences

Under IFRS, current and deferred taxation assets and liabilities are measured using taxation rates enacted unless announcements of taxation rates by the government have the substantive effect of actual enactment. The Group's deferred taxation assets and liabilities at March 31, 2005 were recorded at the substantially enacted taxation rate of 29%.

The taxation rate in South Africa varies depending on whether income is distributed. Upon distribution an additional taxation (secondary taxation on companies or "STC") of 12.5% is due based on the amount of the dividends net of the STC credit for dividends received during a dividend cycle.

In conformity with IFRS, the Group reflects the STC as a component of the income taxation charge for the period in which dividends are declared. IFRS also requires that deferred taxation be provided for at the undistributed rate of 29%.

For the purpose of US GAAP, the Group believes that under SFAS 109: Accounting for Income Taxes ("SFAS 109"), measurement of current and deferred taxation liabilities and assets is based on provisions of the enacted taxation law; the effects of future changes in taxation laws or rates are not anticipated. Therefore, the enacted rate of 30% should be used for all taxation amounts (prior to the calculation of STC). Temporary differences should be tax effected using the taxation rate that will apply when income is distributed, i.e. an effective rate of 36.89% (2005: 37.78%; 2004: 37.78%) including STC.

The Group has therefore computed the estimated STC that would become payable upon distribution of relevant undistributed earnings and accrued that amount as an additional liability for US GAAP purposes.

The use of the higher rate not only affects the measurement of deferred taxation assets and liabilities, and hence the taxation charge for any period, but because temporary differences in a business combination need to be tax effected at the higher rate there is a consequent effect on the amount of goodwill recognised in a business combination under US GAAP.

In addition, SFAS 109 prohibits recognition of deferred taxation assets or liabilities that under SFAS 52 are remeasured from local currency into the functional currency using historical exchange rates and that result from either changes in exchange rates or indexing for taxation purposes. The functional currency of Vodacom Congo (RDC) s.p.r.l. is the US$ and it benefits from indexing for local Democratic Republic of the Congo taxation purposes which gives rise to a deferred taxation benefit for IFRS purposes of R100.9 million at March 31, 2006.

45. US GAAP INFORMATION (continued)

(g) Deferred taxation

The taxation effects of the US GAAP adjustments have been calculated based on the enacted taxation rate of 36.89% (2005: 37.78%; 2004: 37.78%).

A reconciliation of the deferred taxation balances under IFRS to the approximate amounts determined under US GAAP, where materially different, is as follows:

	2004 Rm	2005 Rm	**2006** **Rm**
Net deferred taxation liabilities:			
As reported under IFRS	132.3	164.0	**304.7**
Additional temporary differences (Note 45 d)	46.0	38.9	**37.7**
Business combination (Note 45 m)	(58.3)	(62.4)	**(41.0)**
Income taxation – other difference (Note 45 f)	1,035.0	1,169.1	**1,346.8**
Taxation effect of US GAAP adjustments	12.2	15.5	**16.5**
Deferred taxation in joint venture (Note 45 i)	100.2	–	**–**
As adjusted under US GAAP	1,267.4	1,325.1	**1,664.7**

Under IFRS, deferred taxation assets on deductible temporary differences are only recognised to the extent that it is probable that the future taxable profit will allow the deferred taxation asset to be recovered.

Under US GAAP, deferred taxation assets are recognised on all temporary differences. A valuation allowance is recognised if it is more likely than not that the asset will not be recovered. For US GAAP purposes, an additional deferred taxation asset and a corresponding valuation adjustment allowance of R279.4 million (2005: R109.3 million; 2004: R24.8 million) have no effect on the net shareholder's equity for the current year.

(h) Capitalised interest

Under IFRS, interest cost incurred during the construction period is expensed as incurred.

Under US GAAP, interest cost incurred during the construction period (i.e. period of time necessary to bring a constructed fixed asset to the condition and location necessary for its intended use) is capitalised. The capitalised interest is recorded as part of the asset to which it relates and is amortised over the asset's estimated useful life. Capitalised interest was nil for the years ended March 31, 2006, 2005 and 2004 as the effect of capitalising interest, as compared with the effect of expensing interest, was not material.

(i) Joint ventures

Under IFRS, investments qualifying as joint ventures are accounted for under the proportionate consolidation method of accounting. Under the proportionate consolidation method, the venturer records its share of each of the assets, liabilities, income and expenses of the jointly controlled entity on a line-by-line basis with similar items in the venturer's financial statements. The venturer continues to record its share of losses in excess of its net investment of the joint venture.

Under US GAAP, joint ventures are accounted for under the equity method of accounting. Under the equity method, an investment in a joint venture is shown in the consolidated balance sheet of an investor as a single amount. Likewise, an investor's share of earnings or losses from its investment is ordinarily shown in its consolidated income statement as a single amount. Typically an investor discontinues applying the equity method when its net investment (including net advances) is reduced to zero, unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support from the investee.

45. US GAAP INFORMATION (continued)

(i) Joint ventures (continued)

In 2004 and 2003, the Group also proportionately consolidated Vodacom Congo (RDC) s.p.r.l. The summarised financial statement information for Vodacom Congo (RDC) s.p.r.l. relating to the Group's pro rata interest is set out in Note 44. Under US GAAP, the Group's share of losses of Vodacom Congo (RDC) s.p.r.l. does not exceed the carrying amount of the investment in the joint venture.

	2004 Rm	2005 Rm	**2006 Rm**
Investment in Vodacom Congo (RDC) s.p.r.l. under US GAAP is as follows:			
Initial investment in ordinary shares reported under IFRS	5.1	–	**–**
Initial investment in preference shares reported under IFRS	243.1	–	**–**
Group's share in accumulated losses of the joint venture net of dividends received	(216.6)	–	**–**
Foreign currency translation reserve under IFRS	85.5	–	**–**
Foreign currency translation reserve under US GAAP	(3.2)	–	**–**
Goodwill not amortised under US GAAP	11.2	–	**–**
Investment in associate under US GAAP	125.1	–	**–**

During the previous financial year the shareholders' agreement was amended resulting in Vodacom Congo (RDC) s.p.r.l. being accounted for as a 51% owned subsidiary (Note 30). Accordingly Vodacom Congo (RDC) s.p.r.l. is consolidated under both IFRS and US GAAP.

(j) Minority interest

Under IFRS, net profit attributable for minority interests is included in the Group's net profit. Under US GAAP, net income attributabl for minority interest is presented as a single line item between the deduction for income taxes and income from continuing operations.

The Group adopted IAS 27: Consolidated and Separate Financial Statements ("IAS 27"), from April 1, 2004. In accordance with the guidance, the Group has reclassified its minority interest in the consolidated balance sheet from a liability into equity. The Group applied this reclassification retroactively.

Under US GAAP, minority interest is recorded outside of equity. Therefore, the minority interest under US GAAP is reclassified at the end of each fiscal year in the shareholders' equity reconciliation.

In 2003, all the shareholders of Vodacom Tanzania Limited changed the terms of their shareholders loans, which for the Group were effectively long-term investments, to a non interest-bearing loan due to Vodacom Tanzania Limited securing external debt. The change in the interest rate applicable to the loan changed the fair value of the loan on that date that the loan became interest-free. The loan was remeasured to amortised cost and the difference between the nominal amount of the loan and the fair value on remeasurement date was recorded as a gain in earnings. Under both IFRS and US GAAP, upon consolidation the Group's portion of the loan to Vodacom Tanzania Limited was eliminated. Under the revised IFRS accounting in terms of IAS 27, the remaining portion related to the remeasurement of the loan advanced by the minority shareholders of Vodacom Tanzania Limited was recorded as a capital contribution by the minority interest in equity. Under US GAAP, the Group recorded the gain on remeasurement of the minority interest of the loan in "minority interest" and recognised in earnings.

(k) Foreign exchange translation on net investment in foreign operations

Upon the adoption of IAS 21: The Effects of Changes in Foreign Exchange Rates, the Group has reclassified the foreign exchange gains or losses of the monetary item that forms part of the net investment in foreign operations which is denominated in a currency other than the functional currency of either the parent company or the foreign operation through earnings and not as a separate component of equity.

For US GAAP, in accordance with SFAS 52: Foreign Currency Translation, foreign exchange gains or losses related to a monetary item that forms part of the net investment in foreign operations are recognised upon consolidation as a component of equity in other comprehensive income.

45. US GAAP INFORMATION (continued)

(l) Comprehensive income

	2004 Rm	2005 Rm	**2006** **Rm**
Comprehensive income under US GAAP and accumulated other comprehensive income balances under US GAAP are summarised as follows:			
Net income under US GAAP	2,990.1	3,770.1	**4,764.6**
Other comprehensive (loss)/income:			
Foreign currency translation adjustment	(190.0)	(59.5)	**117.2**
Gain on derivatives – reclassified to earnings net of tax	(4.8)	(4.8)	**(4.9)**
Other comprehensive (loss)/income	(194.8)	(64.3)	**112.3**
Comprehensive income	2,795.3	3,705.8	**4,876.9**
Accumulated other comprehensive income balances:			
Cumulative foreign currency translation adjustments	(346.8)	(406.3)	**(289.1)**
Cumulative effect adjustment of adoption of SFAS 133	22.8	18.0	**13.1**

(m) Business combinations

Under IFRS, the Group elected to fair value 100% of the assets acquired and liabilities assumed, including minority interests. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill.

Under US GAAP, the Group fair values the percentage of the assets acquired and liabilities assumed, excluding minority interests. Similar to IFRS, the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed should be recognised as an asset referred to as goodwill. As a result, the carrying amount of the goodwill for US GAAP purposes is adjusted to reflect the different values assigned to the intangibles.

Under IFRS and US GAAP, losses are generally only allocated to the minority interest up to the amount of the minority's equity in the subsidiary entity. In 2004, the minority interest allocation was a net profit under US GAAP, and a net loss under IFRS (due to the additional amortisation expense). Therefore, there was no minority interest allocation under IFRS, and thus there was a GAAP difference effecting net income. In 2005, the minority interest allocation under both IFRS and US GAAP was a net profit. Therefore, in accordance with IAS 27, the IFRS allocation to minority interest was net of the loss not allocated to the minority in 2004. No difference in shareholders' equity exists at the end of 2005.

(n) Revenue recognition

Under US GAAP, the Group applies EITF 00-21 to its revenue arrangements with multiple deliverables. This application has not resulted in a difference between the revenue recognised under US GAAP and IFRS.

45. US GAAP INFORMATION (continued)

(o) Recent accounting pronouncements

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-based Payments" ("SFAS 123R"). This statement eliminates the option to apply the intrinsic value measurement provisions of APB 25, "Accounting for Stock Issued to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognised over the period during which an employee is required to provide services in exchange for the award the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. For public entities that do not file as small business issuers, the standard is effective for the first annual reporting period that begins after June 15, 2005. The Group is currently evaluating the impact of SFAS 123R on its results of operations, financial position and cash flows.

On November 24, 2004, the FASB issued SFAS 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). The amendments made by SFAS 151 clarify that "abnormal" amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognised as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS 151 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board ("IASB") toward development of a single set of high-quality accounting standards. The FASB and the IASB noted that ARB 43, Chapter 4 and IAS 2, Inventories, are both based on the principle that the primary basis of accounting for inventory is cost. Both of these accounting standards also require that "abnormal" amounts of idle freight, handling costs, and wasted materials be recognised as period costs; however, the Boards noted that differences in the wording of the two standards could have led to the inconsistent application of those similar requirements. The FASB concluded that clarifying the existing requirements in ARB 43 by adopting language similar to that used in IAS 2 is consistent with its goals of improving financial reporting in the United States and promoting convergence of accounting standards internationally. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Group does not expect the adoption of SFAS 151 to have a material impact on its operations, financial position or cash flows.

In December 2004, the FASB issued SFAS 153, "Exchanges of Non-monetary Assets" ("SFAS 153"), which amends APB 29: Accounting for Non-monetary Transactions" to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Group does not expect the adoption of SFAS 151 to have a material impact on its operations, financial position or cash flows.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections". SFAS 154 replaces APB 20, "Accounting Changes", and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements", and amends the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 establishes retrospective application, unless impracticable, as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. In many, but not all, aspects under SFAS 154 the accounting for changes and error corrections are converged with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Group is currently evaluating the impact of SFAS 154 on its results of operations, financial position and cash flows.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments". SFAS 155 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitised Financial Assets." SFAS 155 is effective for all financial instruments acquired or issued after the first fiscal year beginning after September 15, 2006. The Group is currently evaluating the impact of SFAS 155 on its results of operations, financial position and cash flows.

45. US GAAP INFORMATION (continued)

(o) Recent accounting pronouncements (continued)

In March 2006, the FASB issued SFAS 156 "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140". SFAS 156 amends SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognised servicing assets and servicing liabilities. SFAS 156 requires a company to recognise a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract principally in a transfer of the servicer's financial assets that either meets the requirements for sale accounting, or is to a qualifying special-purpose entity in a guaranteed mortgage securitisation in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS 156 requires all separately recognised servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits a company to choose to subsequently measure each class of separately recognised servicing assets and servicing liabilities using either a specified amortisation method or a specified fair value measurement method. SFAS 156 is applicable to all transactions entered into in fiscal years that begin after September 15, 2006. The Group is currently evaluating the impact of SFAS 155 on its results of operations, financial position and cash flows.

46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements adopted at March 31, 2006

The Group adopted the following revised and new International Financial Reporting Standards prior to their effective dates in the current financial year:

IAS 19	Employee Benefits
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group adopted the following revised and new International Financial Reporting Standards in accordance with their effective dates during the current financial year:

IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 40	Investment Property
IFRS 4	Insurance Contracts
IFRIC 1	Changes in the Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Member's Shares in Co-operative Entities and Similar Instruments

The adoption of IFRS 6, IFRIC 1, IFRIC 2, IFRIC 5 and IFRIC 6 had no impact on the Group's results or cash flow information for the year ended March 31, 2006.

Please refer to Note 23: Change in Accounting Policies, Reclassifications and Restatements for the effect of the above adoptions on the financial statements, if any.

Accounting pronouncements not adopted at March 31, 2006

In August 2005 the IASB amended IAS 1: Presentation of Financial Statements ("IAS 1") to add requirements for disclosure about capital. These disclosure requirements include the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

These disclosure requirements apply to all entities, effective for annual periods beginning on or after January 1, 2007, with earlier adoption encouraged.

The Group will adopt the revised IAS 1 during the 2007 financial year and is currently evaluating the effects of the standard.

46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (continued)

Accounting pronouncements not adopted at March 31, 2006 (continued)

In April 2005 the IASB issued an amendment to IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39") to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements – provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements. The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in IAS 39 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

In June 2005 the IASB amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss (the "fair value option"). The new revisions limit the use of the option to those financial instruments that meet certain conditions. Those conditions are that:

- The fair value option designation eliminates or significantly reduces an accounting mismatch,
- A group of financial assets, financial liabilities, or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy,
- An instrument contains an embedded derivative that meets particular conditions.

The fair value option amendment also provides that if a contract contains an embedded derivative, an entity may generally elect to apply the fair value option to the entire hybrid (combined) contract, thereby eliminating the need to separate out the embedded derivative. The abovementioned conditions are not relevant to this election.

In August 2005 the IASB amended the scope of IAS 39 to include financial guarantee contracts issued. However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 39 or IFRS 4: Insurance Contracts ("IFRS 4") to such financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Under IAS 39 as amended, financial guarantee contracts are recognised:

- Initially at fair value.
- Subsequently at the higher of (i) the amount determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18: Revenue.

The amendments to IAS 39 and IFRS 4 are effective for annual periods beginning on or after January 1, 2006. The Group will adopt the amended IAS 39 during the 2007 financial year and is currently evaluating the effects of the amended standard.

In December 2005 the IASB amended IAS 21: The Effects of Changes in Foreign Exchange Rates ("IAS 21"). The amendments concluded that the accounting treatment in consolidated financial statements of a monetary item that forms part of an entity's net investment in a foreign operation, should not be dependent on the currency of the monetary item. The accounting should also not depend on which entity within the Group conducts a transaction with the foreign operation.

The amendment to IAS 21 is effective for annual periods beginning on or after January 1, 2006. The Group will adopt the amended IAS 21 during the 2007 financial year and is currently evaluating the effects of the amended standard.

46. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING PRONOUNCEMENTS (continued)

Accounting pronouncements not adopted at March 31, 2006 (continued)

In August 2005 the IASB issued IFRS 7: Financial Instruments: Disclosures ("IFRS 7"). The standard is effective for annual periods commencing on or after January 1, 2007. The standard adds certain new disclosures about financial instruments to those currently required by IAS 32: Financial Instruments: Disclosure and Presentation ("IAS 32"). The standard replaces the disclosures currently required by IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions ("IAS 30"). The standard therefore puts all of those financial instruments disclosures together in a new standard.

The Group will adopt IFRS 7 during the 2007 or 2008 financial years and is currently evaluating the effects of the standard.

In November 2005 the IASB issued IFRIC 7: Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies ("IFRIC 7"). The interpretation is effective for annual periods beginning on or after March 1, 2006. IFRIC 7 contains guidance on how an entity would restate its financial statements in the first year it identifies the existence of hyperinflation in the economy of its functional currency.

The Group will adopt IFRIC 7 during the 2007 financial year and does not believe that the adoption of the interpretation will have any effect.

In January 2006 the IASB issued IFRIC 8: Scope of IFRS 2 ("IFRIC 8"). The interpretation is effective for annual periods beginning on or after May 1, 2006. IFRIC 8 clarifies that IFRS 2: Share-based Payments ("IFRS 2") applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. IFRIC 8 explains that, if the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies.

The Group will adopt IFRIC 8 during the 2007 financial year and does not believe that the adoption of the interpretation will have any effect.

In March 2006 the IASB issued IFRIC 9: Reassessment of Embedded Derivatives ("IFRIC 9"). The interpretation is effective for annual periods beginning on or after June 1, 2006. IAS 39: Financial Instruments: Recognition and Measurement ("IAS 39") requires an entity, when it first becomes a party to a hybrid contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as if they were standalone derivatives.

IFRIC 9 addresses:

- Whether IAS 39 requires such an assessment to be made only when the entity first becomes a party to the hybrid contract, or whether the assessment be reconsidered throughout the life of the contract.
- Whether a first-time adopter of IFRSs should make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs for the first time.

The Group will adopt IFRIC 9 during the 2007 or 2008 financial years and is currently evaluating the effects of the standard.